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# Appraisal of Korea Development Bank

**September 30, 1976**

East Asia and Pacific Projects Department  
Agricultural Credit and DFC Division

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### CURRENCY EQUIVALENTS

US\$1.00	=	W 485
W 1	=	US\$0.0021
W 1 million	=	US\$2,062
W 1 billion	=	US\$2.06 million

### ABBREVIATIONS

ADB	-	Asian Development Bank
BOK	-	Bank of Korea
Exim Bank	-	Export Import Bank of Japan
IFD	-	Industrial Finance Debenture
IRF	-	Industrial Rationalization Fund
KDB	-	Korea Development Bank
KDFC	-	Korea Development Finance Corporation
KECO	-	Korea Electric Company
KfW	-	Kreditanstalt für Wiederaufbau
KILC	-	Korea Industrial Leasing Company, Ltd.
MIB	-	Medium Industry Bank
NIF	-	National Investment Fund
OECD	-	Overseas Economic Development Fund, Japan
OP	-	Operational Program
RC	-	Readjustment Corporation
SAC	-	Shareholding Administration Committee
SAF	-	Shareholding Administration Fund
SFD	-	Special Finance Debenture
TDF	-	Tourism Development Fund
USAID	-	United States Agency for International Development

### FISCAL YEAR

January 1       -       December 31

KOREAAPPRAISAL OFKOREA DEVELOPMENT BANKTable of Contents

	<u>Page No.</u>
BASIC DATA	
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS .....	i - iii
I.    INTRODUCTION .....	1
II.   INSTITUTIONAL ASPECTS .....	1
Functions .....	1
Organization, Management and Staff.....	2
Operational Policies .....	3
Procedures .....	4
Relations with the Government .....	6
III.  OPERATIONS AND RESOURCES .....	7
Summary of Operations .....	7
Lending Operations .....	7
Investment Operations .....	9
Guarantee Operations .....	11
Interest Rates and Guarantee Fees .....	13
Resources .....	14
IV.   FINANCIAL CONDITION, OPERATIONAL PERFORMANCE AND PORTFOLIO .....	15
Financial Position .....	15
Operational Performance .....	17
Audit .....	17
Evaluation of Portfolio .....	18
Collateral .....	20

This report is based on the findings of an appraisal mission comprising Messrs. Zamir Hasan, Rainer Ullman and Alain Soulard that visited KDB in April 1976.

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	<u>Page No.</u>
V. KDB's DEVELOPMENTAL ROLE .....	21
KDB in Perspective .....	21
KDB's Role in the Government's Development Strategy ....	21
Economic Impact of KDB's Lending to the Manufacturing Sector .....	22
Economic Rate of Return Analysis .....	23
Influence on Project Design and Technical Assistance ..	23
Resource Mobilization .....	24
VI. PROSPECTS .....	25
General Outlook .....	25
Forecast of Commitments .....	25
Resource Requirements .....	26
Financial Projections .....	27
Proposed Bank Loan .....	29

#### List of Annexes

1. Economic, Industrial and Financial Environment
2. Board of Executive Directors as of March 31, 1976
3. Staffing Position by Departments
4. Policy Statement
5. Summary of Loan Operations, 1971-1975
6. Analysis of Loans Committed, 1973-1975 and Outstanding as of  
    December 31, 1975
7. Distribution by Size and Duration of Loans Committed - 1973-1975  
    and Outstanding as of December 31, 1975
8. Sectoral Distribution of Loans Committed - 1973-1975 and Outstanding  
    as of December 31, 1975
9. Sub-Projects Approved or Under Consideration for Financing under  
    IBRD Loan 1095-K0
10. Summary of Investment Operations, 1971-1975
11. Analysis of Equity Investments - 1973-1975 and Outstanding as of  
    December 31, 1975
12. The Readjustment Corporation
  - Table 1 - Summarized Accounts of the Readjustment Corporation  
          for the Years Ended December 31, 1970 through 1975
  - Table 2 - Claims of KDB and Other Banking Institutions Trans-  
          ferred to Readjustment Corporation, 1971-1975
13. Korea Industrial Leasing Company (KILC)
  - Appendix 1 - Important Articles of KILC's Operational Manuals  
            (as amended November 10, 1975)
  - Appendix 2 - Board of Executive Directors of KILC as of  
            March 31, 1976
  - Appendix 3 - Summarized Balance Sheets of KILC as of  
            December 31, 1973-1975
  - Appendix 4 - Summarized Income Statements of KILC for the  
            Years 1973-1975

14. Summary of Guarantee Operations, 1971-1975
15. Analysis of Guarantees Committed 1973-1975 and Outstanding as of December 31, 1975
16. Rates of Interest in Korea as of March 31, 1976
17. Resource Position as of December 31, 1975
18. Details of Long-Term Resources as of December 31, 1975  
Table 1 - Terms and Conditions of Long-Term Borrowings as of December 31, 1975
19. Summarized Balance Sheets, 1971-1975
20. Summarized Cash Flow Statements, 1971-1975
21. Summarized Income Statements, 1971-1975
22. Condition of Loan and Guarantee Portfolio as of December 31, 1975
23. Loan and Guarantee Portfolio in Arrears, 1972-1975
24. Analysis of Loans in Arrears, 1972-1975
25. Analysis of Guarantees in Arrears, 1972-1975
26. Economic and Financial Rates of Return on a Sample of KDB Financed Projects
27. Forecast of Approvals, Commitments and Disbursements, 1976-1980
28. Borrowings Program to Meet Forecast Commitments, 1976-1980
29. Projected Balance Sheets, 1976-1980
30. Projected Income Statements, 1976-1980
31. Projected Cash Flow Statement, 1976-1980
32. Projected Indicators of Financial and Operational Performance, 1976-1980
33. Schedule of Projected Draw Downs from Proposed Bank Loan of US\$82.5 Million

#### Charts

- Organization Chart as of March 31, 1976 - No. 16062  
Organization Chart of a Typical Branch - No. 16056



KOREA

KOREA DEVELOPMENT BANK

BASIC DATA

1. Year of Establishment: 1954
2. Ownership: Government - 100%
3. Bank Group Assistance: (as of September 30, 1976)  
Loan No. 1095-KO  
Date Signed: March 31, 1975  
Date of effectiveness: June 17, 1975  
Rate of interest: 8.5% p.a.  
Amount: US\$60 million  
Authorized: US\$59.1 million  
Disbursements: US\$39.0 million  
Outstanding: US\$60.0 million

(in billion Won)				
4. <u>Operations</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
<u>Loan Commitments</u>				
Domestic currency	140.7	94.5	128.9	182.1
Foreign currency	13.3	10.6	24.3	21.0
<u>Total</u>	<u>154.0</u>	<u>105.1</u>	<u>153.2</u>	<u>203.1</u>
<u>Investments</u>				
Equity shares	23.4	3.0	10.7	69.4
Bonds & debentures	0.4	0.9	1.7	4.8
<u>Total</u>	<u>23.8</u>	<u>3.9</u>	<u>12.4</u>	<u>74.2</u>
<u>Guarantees</u>				
Domestic currency	5.0	16.8	10.3	11.1
Foreign currency	120.2	296.9	689.6	540.0
<u>Total</u>	<u>125.2</u>	<u>313.7</u>	<u>699.9</u>	<u>551.1</u>
5. <u>Interest Rates (as of August 2, 1976, percent p.a.)</u>	<u>Before</u>		<u>After</u>	
		Up to 3	3 to 8	Over 8
a. <u>Capital Loans</u>		<u>years</u>	<u>years</u>	<u>years</u>
Government Funds	12.0	12.0	12.0	12.0
Machine Industry Promotion Funds	12.0	13.0	14.0	15.0
Special Equipment Funds	12.0	13.0	14.0	-
Internal Funds (priority industries)	12.0	13.0	14.0	15.0
Internal Funds (non-priority industries)	15.5	17.0	18.0	19.0
Foreign Commercial Funds	12.0	12.0	12.0	12.0
b. <u>Working Capital Loans</u>				
Government Funds	15.5	15.5	15.5	15.5
Machine Industry Promotion Funds	12.0	13.0	13.0	13.0
Special Equipment Funds	17.0	13.0	13.0	13.0
Internal Funds (prime clients)	15.5	17.0	17.0	17.0
Internal Funds (other clients)	15.5	18.0	18.0	18.0
Foreign Commercial Funds	12.0	12.0	12.0	12.0
c. <u>National Investment Fund</u>	12.0	13.0	14.0	-

d. Tourism Development Fund Loans	7.5			
e. <u>Industrial Rationalization Fund Loans</u>				
Direct Loans	13(14) <sup>1/</sup>			
Loans through banking institutions	11.5(12.5) <sup>1/</sup>			
f. Government Special Fund Loans	6 to 9			
g. AID Loans (3rd)	10			
h. KfW Loans (4th)	9			
i. ADB Loans (5th)	10.75			
j. IBRD Loans	10.5			
k. Penalty charge	25			
6. <u>Earnings Record:</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
Profit before tax and provisions as % of average total assets	1.7	0.5	1.0	2.2
Net income after tax and provisions as % of average equity	3.8	0.7	2.8	6.9
Cost of term debt as % of average term debt	8.3	8.7	8.3	8.7
Financial expenses as % of average total assets	5.5	5.6	5.8	5.8
Administrative expenses as % of average total assets	1.3	1.3	1.8	1.1
7. <u>Financial position</u> (as of December 31)				
Current ratio	2.4	1.5	1.5	1.0
Total debt <sup>2/</sup> /equity ratio	5.4	7.3	10.3	3.6
Long term debt <sup>2/</sup> /equity ratio	5.3	7.2	10.2	3.3
Reserves and provisions as % of loan and investment portfolio	9.8	8.0	7.2	6.9

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<sup>1/</sup> Rates in paranthesis apply to loans with maturities over 3 to 8 years.

<sup>2/</sup> Including guarantees on which KDB carries the risk.



## KOREA

### APPRAISAL OF KOREA DEVELOPMENT BANK

#### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

(i) This report recommends a loan of \$82.5 million to Korea Development Bank (KDB). As a special feature of this loan, US\$7.5 million will be earmarked for onlending to the Korea Industrial Leasing Company (KILC), a subsidiary of KDB.

(ii) KDB is the largest institution in Korea providing term capital. In 1975 KDB financed 7% of total fixed capital formation in Korea and was involved in 34% of total fixed investment in the country. It accounts for 43% of all medium- and long-term loans outstanding in the banking sector. Its guarantee portfolio accounts for 38% of Korea's total foreign term debt.

(iii) KDB's appraisal standards are high and its reports usually reflect thorough competent appraisal work. At the time of the first loan, the Bank asked KDB to start doing economic rate of return analysis for at least some projects; the scope of economic rate of return analysis will be considerably enlarged in the future. KDB will also include explicitly in its appraisal reports a treatment of the employment impact of its investments. KDB's supervision procedures are well developed and systematic. Its procurement and disbursement procedures are also satisfactory.

(iv) KDB's present Governor has been in office for 4 years; he provides effective leadership. All Executive Directors have been promoted from within and have served KDB for many years. KDB's staff is professionally highly competent and efficient.

(v) KDB's loan commitments increased to W 203 billion in 1975 from W 153.2 billion in 1974. Equity investments were abnormally high because the Government transferred W 50 billion in shares to KDB as capital in kind. During negotiations the Government has given an undertaking that, in future, equity increases would normally be made by way of cash contributions or loan conversions. Adequate safeguards have been provided that in the exceptional case of increase in equity in the form of transfer of shares, there would be no overvaluation. Guarantees issued by KDB declined to W 551 billion in 1975 from W 700 billion in 1974; the majority of these were covered under the Guarantee Release Arrangement made at the time of the first Bank loan.

(vi) KDB's resource position was tight in 1975 because of its inability to raise needed funds in international capital markets which were badly affected by the world recession. The resource position has improved in 1976. Equity capital remains KDB's single largest source of funds, accounting for 30% of total resources.

(vii) KDB has very low arrears. To a certain extent, the level of arrears was affected by the high incidence of justified reschedulings during 1975. However, KDB's portfolio remains sound even after taking into account all the reschedulings.

(viii) Because of large reschedulings in 1975, payment of a large part of new capital by the government in the form of shares in various companies and KDB's inability to raise as much in long-term funds as it had planned, KDB's liquidity position was tight in 1975. It has taken steps to avoid a similar situation in the future. KDB will also endeavor to reduce the proportion of 2-3 year Industrial Finance Debentures in its total resources. KDB's liquidity position has already improved in 1976. KDB's operational profitability has improved in the last two years although the return on equity remains modest.

(ix) KDB's operational projections show that its commitments in 1976-78 would amount to W 876 billion. It plans to raise a total of W 987 billion during this period, including two loans amounting to \$180 million from the World Bank. The proposed loan will help KDB meet a part of its resource requirements.

(x) Financial projections show that KDB's financial position should remain satisfactory with improving liquidity and reasonable debt service and interest coverages. Its profitability will remain modest but, for a state-owned institution, satisfactory.

(xi) The proposed loan will have two components: \$75 million for the main operations of KDB and \$7.5 million for its subsidiary, the Korea Industrial Leasing Company, Ltd (KILC). The KILC component will be used for projects meeting specific eligibility criteria. It is proposed to have a fixed maturity of 15 years for the KILC component and to allow KILC reimbursement of the foreign exchange component of local procurement of machinery, estimated at 60%.

(xii) No change is recommended in the 5:1 debt/equity ratio. The free limit is proposed to be increased to \$1.5 million; the Bank could expect to receive projects for prior approval accounting for 70% of the proposed loan amount. To encourage the diversification of KDB's overall portfolio and specifically the diversification of KDB's on-lending of Bank funds, KDB should not lend more than 20 to 25 percent of the proposed loan to any one sector other than manufacturing. Within the manufacturing sector, the 20 to 25 percent limitation would apply to individual industries. The size of a single sub-loan should not normally exceed \$5 million.

(xiii) During negotiations for the proposed loan, understandings were reached with KDB (recorded in agreed minutes) on the following:

- (a) KDB's appraisal reports, in the future, will deal explicitly with the aspects of the choice of technology and more labor intensive production processes so as to

indicate that due weight was given to the employment effects of the subprojects. Also KDB will enlarge the scope of the economic rate of return analysis (paragraphs 2.13 and 2.14).

- (b) In the interest of the diversification of KDB's overall portfolio and specifically for the diversification of KDB's on-lending of IBRD funds, KDB will not lend more than 20 to 25 percent of the proposed loan to any one sector other than manufacturing; within the manufacturing sector, the 20-25 percent limitation will apply to individual industries. KDB will also use \$5 million of the proposed loan for the domestic construction industry in view of the potential this industry possesses for job creation (paragraph 6.15).
- (c) Lending from the KILC portion of the proposed loan will normally be limited to enterprises with total assets of up to W 600 million or projects with estimated cost of up to US\$15,000 equivalent per new job (paragraph 6.14).
- (d) An arrangement between the Government and KDB, whereby the Government would in effect assume the risks on projects which KDB finances acting as an agent only (paragraph 2.19).
- (e) An understanding by the Government to normally increase KDB's capital through cash contributions or loan conversions. If under exceptional circumstances subscriptions by the Government to KDB's capital would be made by way of share transfer, the transfer price of such shares would not be lower than their appraised value (paragraph 3.22).
- (f) A phasing out schedule of the cases which exceeded the new financial prudence limits set in KDB's Policy Statement of April 9, 1975 (paragraph 2.10).
- (g) KDB would make an account-by-account analysis, in collaboration with its external auditors, to determine the appropriate provisions during the course of audit of its 1976 accounts and that such provisions would be properly treated in its balance sheet (paragraph 4.14).
- (h) KDB would make every effort to lessen the importance of short-term IFD's in its total resources.



## KOREA

### APPRAISAL OF KOREA DEVELOPMENT BANK

#### I. INTRODUCTION

1.01 The first Bank loan of \$60 million to KDB was signed in March 1975 and became effective in June 1975. KDB's utilization of the loan has been very satisfactory. As of September 30, 1976, \$59.1 million had been authorized and \$39.0 million had been disbursed, ahead of the original estimates.

1.02 This report, based on an appraisal carried out in April 1976, recommends a loan of \$82.5 million. The main objectives of the proposed loan are transfer of resources and their efficient allocation, mainly in the manufacturing sector, and to continue the Bank's "institution building role" which began with the first loan. An innovative feature is the earmarking of a portion of the loan for KDB's subsidiary, the Korea Industrial Leasing Company, Ltd., for small enterprises with specific project eligibility criteria.

1.03 The Bank's latest report on the Korean economy is "Current Economic Position and Prospects of the Republic of Korea," dated May 26, 1975. A Basic Economic Mission visited Korea in June-July 1976; its report is under preparation. Those aspects of the economic situation which have direct relevance to KDB's operations are summarized in Annex 1.

#### II. INSTITUTIONAL ASPECTS

##### Functions

2.01 Broad functions. KDB was established in 1954 with the primary objective of the post-war rehabilitation of Korean industries and infrastructure. KDB finances such sectors as electric power, coal mining, shipbuilding and most industries in the manufacturing sector, both public and private. It makes (a) long- and medium-term capital loans, (b) working capital loans to enterprises financed under (a), (c) equity investments, and (d) it issues guarantees in domestic and foreign currency. KDB is now the country's largest term financing institution and it is currently planning to enter the merchant banking business by establishing a subsidiary.

2.02 Government has consistently depended on KDB as a financing channel for its development policies. In line with this objective the KDB Shareholding Act was enacted in 1969 to enable KDB to act as a holding company for such enterprises the shares of which are transferred to it by the Government. These holdings have declined in recent years, in line with Government's policy gradually to transfer ownership of public companies to the private sector.

2.03 Share capital. In December 1974, the KDB Act was amended to increase KDB's authorized capital to ₩ 300 million from its previous level of ₩ 150 million. As of December 31, 1975 KDB's paid in capital stood at ₩ 203.2 billion.

#### Organization, Management and Staffing

2.04 KDB's organization is shown in Chart 1. The Head Office has twenty-two departments. These have been grouped according to broad functions, each group reporting to one of the seven Executive Directors. Each department is headed by a Director who reports to the Executive Director in charge. The operational departments are responsible for processing applications for loans, investments and guarantees and for all follow-up activities. Supporting departments undertake technical and financial studies, research and international transactions. Specialized departments are in charge of operational planning and internal audit. Supporting departments include Technical Services, Business Analysis, Research, Foreign Capital and International Departments. General planning and control is entrusted to the Planning, Business Control, Operation Development, Special Credit Control and Audit Departments. The other departments are in charge of the general administration and secretariat.

2.05 Branches and representative offices. KDB has nine branches outside Seoul; one in Ulsan and one in each of the major cities of the eight mainland provinces. The organization of a typical branch is given in Chart 2. The Head Office is responsible for all projects located in Seoul area, large Government projects, and foreign currency financing; the branches identify and appraise all projects located in their jurisdiction. Apart from small working capital loans which can be approved by the branches within certain limits, <sup>1/</sup> the project appraisal is normally forwarded to the Head Office for approval. KDB also has representative offices abroad which are mainly in charge of investment promotion and fund raising. In addition to its offices in New York and Tokyo which were established earlier, KDB opened two more offices during 1975, in London and Kuwait.

2.06 Management. KDB is managed by a full-time Board of Executive Directors composed of the Governor, the Deputy Governor and seven Executive Directors. The Governor is appointed by the President of the Republic upon recommendation by the Minister of Finance while the Deputy Governor and Executive Directors are appointed by the Minister of Finance upon recommendation by the Governor. The term of office of all Board members is 3 years, and is renewable. Brief particulars of KDB's Board members are summarized in Annex 2.

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<sup>1/</sup> ₩ 30 to ₩ 110 million depending on the branch.

2.07 The present Governor of KDB, Mr. Woun Gie Kim was reappointed in 1975 and has now held office for 4 years. Most of his previous career was spent dealing with fiscal and monetary matters in the Ministry of Finance of which he was the Vice Minister. The Deputy Governor, Mr. Choon Taik Chung is new to KDB having been appointed in May, 1976. All the present Executive Directors have spent their entire career in KDB and its predecessor, the Industrial Bank of Korea. All members of the Board are well qualified and experienced. The Governor is well respected in financial and business circles and in the Government. KDB is a competently managed institution; the Governor provides effective leadership.

2.08 Staff. A breakdown of KDB's staffing position by departments as of March 31, 1976 is shown in Annex 3. As of that date KDB's total staff numbered 1,698 of whom 556 should be considered as "professionals". About a fifth of the total staff is assigned to provincial branches or representative offices. KDB's total staff has remained at approximately the same strength over the last five years. Staff turnover has been increasing with the gradual erosion of KDB's comparative salary advantage especially in comparison with private industry. Although KDB's management is aware of this problem, its ability to strengthen KDB's remunerative competitiveness is hampered by Government regulations, and there is a possibility that annual staff turnover of 5% -10% may become a normal feature. While this will be high by KDB's historical record, KDB can afford it without loss of efficiency. Professional staff is recruited through competitive examinations from graduates of both college and high school. Most all the present senior staff started their career with KDB. Seniority and performance are the main considerations in staff promotion.

2.09 KDB provides regular professional training to its employees. In 1975 a total of over 1,500 persons from clerks to department directors took part in various training courses of 2 days to 4 weeks. In addition, 24 professionals were sent abroad for training in various private or multinational organizations in 1975. KDB has a systematic and efficient training and career development program for its staff.

### Operational Policies

2.10 KDB's operations are governed by the KDB Act and its Enforcement Decree, KDB's By-laws, Operating Manuals and a Policy Statement, given in Annex 4, amendments to which are subject to the Bank's agreement. The Policy Statement provides for the usual financial prudence limits, among other matters. As of June 30, 1976, KDB had exceeded various limits in 12 cases, but 11 of those were already in KDB's portfolio when the new Policy Statement was adopted. However, additional financial assistance has since been granted by KDB to 7 of them. On the basis that exceptional cases should be normalized over a period of time, the Bank discussed during negotiation, and found acceptable, a plan prepared by KDB to phase out those old cases. During the first half of 1976, KDB was already able to dispose of two of such earlier cases.

## Procedures

2.11 Appraisal. Procedures are practically identical in the case of loans, guarantees and equity investments. All applications go through a preliminary screening either at the branch or head office before a full appraisal is undertaken. After appraisal of the project, a final recommendation is made by the Loan Officer to the Board of Directors or to the Loan Review Committee, which comprises the Deputy Governor, the Executive Director in charge of the Business Control Department and the Executive Director in charge of the department which conducted the project appraisal. The Loan Review Committee considers domestic currency loans and guarantees amounting to less than ₩ 50 million each and subprojects designated by Government amounting to less than ₩ 200 million each. Guarantees in foreign currency <sup>1/</sup> are processed by the Foreign Guarantee Department and foreign currency loans by the Foreign Loan Department. Equity investments are appraised by the Shareholding Department if KDB participation is to exceed 50%, otherwise by the Investment and Securities Department. While general responsibility for preparing the appraisal report lies with the Loan Officer, he may, depending on the complexity of the project, request a technical feasibility analysis from the Technical Services Department or a detailed financial analysis from the Business Analysis Department. Consultations with these two departments are usually waived when the company was appraised by the Business Analysis Department within the preceding 12 months or a credit research was carried out within the preceding 6 months. The Loan Officer must also contact the Korea Appraisal Board to obtain an independent evaluation of the collateral.

2.12 KDB's appraisals are usually thorough and systematic. The quality of appraisals reviewed by the Bank under the First Loan has been consistently good. An ex-post analysis of project costs carried out by KDB in 1975 on a sample of projects showed a very satisfactory estimation of capital costs in the original appraisals. For some very large priority projects referred to KDB by the Government, its role is confined to acting as a channel. KDB's input in formulation and appraisal of such projects is small, being limited to checking and supplementing the evaluation work done by the ministries concerned.

2.13 Under the First Bank Loan, KDB undertook to calculate the Economic Rate of Return (ERR) for all projects with subloans of US\$750,000 or more financed from the loan. After KDB had gained sufficient experience and found the ERR calculation a useful analytical tool, it recently expanded the applicability of the ERR analysis to all foreign currency loans exceeding US\$750,000 irrespective of the source of financing. It will henceforth also include this analysis in its appraisals of all domestic currency loans exceeding ₩ 2 billion (US\$4 million) for which it takes the financial risks (see para 2.19).

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<sup>1/</sup> Subject to prior approval by the Foreign Capital Inducement Deliberation Committee of the Economic Planning Board.



2.14 In accordance with the Government's economic policies, KDB has been giving primary emphasis to those sectors which contribute to improving Korea's balance of payments and to heavy and chemicals industries. Although KDB does a competent job of project appraisal, it will, at the suggestion of the Bank, give more emphasis in its appraisals of sub-projects to the employment creation aspects. Its appraisal reports on projects to be financed from the proposed Bank loan will deal explicitly with the aspects of alternative technologies and more labor intensive production processes, so as to indicate that due weight was given to their employment effect. KDB has the technical capacity to analyze such aspects competently.

2.15 Follow-up. KDB's follow-up procedure is laid down systematically in its operating manuals. Supervision guidelines and reporting requirements are complete and thorough. Supervision is the responsibility of the Loan Officers, in addition to their appraisal work. Following completion of a project, all clients are requested to submit quarterly reports on their operations and financial condition. Annual audited financial statements are required in the case of all foreign currency loans and for domestic currency loans exceeding W 100 million. On-the-spot inspections are selectively made with field audits of the companies' books. Overdue loans or insufficiently collateralized loans are transferred to the Special Loan Department. When legal action is deemed necessary to recover overdues, the accounts are transferred for collection to the Readjustment Corporation. (See paragraph 4.11)

2.16 Procurement and Disbursement. KDB's procurement policies and procedures are thorough and satisfactory. No formal competitive bidding is required by KDB for its domestic currency loans. The Technical Operations Department (TOD), however, closely reviews the adequacy of the proposed machinery as well as its estimated cost. Quotations from several suppliers are normally requested. For foreign currency loans, KDB normally requires international competitive bidding unless another procedure is justified on project grounds.<sup>1/</sup> KDB's bidding procedures are designed to ensure adequate publicity for bid announcements. Evaluation of bids is performed by the TOD and final selection of bids is made jointly with the subborrowers. It is KDB's general policy to accept the lowest bid unless special reasons justify otherwise. KDB has stated that it will inform the Bank with detailed justification whenever, in respect of a project to be financed from the proposed Bank Loan proceeds, procurement is not made on the basis of the lowest bid.

2.17 Regular Project Progress Reports are prepared by TOD as a basis for allowing disbursements, ensuring that the borrower is fulfilling his financial commitments and that withdrawals are being made for the agreed

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<sup>1/</sup> Of the 68 foreign currency loans extended by KDB during 1975 and first half of 1976, including Bank sub-projects, there were 14 cases where ICB requirement was waived. Most of these 14 loans were for financing of second-hand ships where ICB would not be appropriate.

purposes. For loans in foreign currency, KDB follows the procedures laid down by the lending institutions. At the end of the construction period, a final Completion Report is issued by TOD.

#### Relations with Government

2.18 KDB's Autonomy. The Government is the sole shareholder of KDB, and as already noted, appoints its Governor, the Deputy Governor, the Executive Directors and the internal Auditor. The Minister of Finance exercises direct supervision over KDB through approval of the Annual Operational Program (see the following paragraph), audit of KDB's budget and financial accounts, and examination of the various periodic reports submitted by KDB. The By-laws and Operating Manuals of KDB and any revisions thereof are subject to the approval of the Minister of Finance. KDB is also subject to the control of the National Assembly, the Monetary Board and the Board of Audit and Inspection. Its profits are exempt from income tax and the Government is obliged under Article 44 of the KDB Act to compensate KDB's eventual loss. Government may further authorize KDB to engage in new activities or in the financing of new sectors by modifying the KDB Act and its Enforcement Decree.

2.19 KDB has full autonomy in decisions on projects financed from resources raised independently of the Government, including funds from international institutions. However, funds provided by the Government are usually earmarked for certain sectors or, in the case of large priority industries, for specific projects. KDB has financed and will continue to finance projects in the selection and formulation of which it could not realistically be expected to have any meaningful role. Such cases include Korea Electric Company (KECO), Korea National Railways, Korea Highway Corporation, etc. The large exposure of KDB in KECO led the Bank to ask as a condition of its first Loan that an agreement be signed between KDB and the Government whereby, in effect, the risks were assumed by the Government. A similar agreement, satisfactory to the Bank, has now been worked out between KDB and the Government which would relieve KDB of the financial risks in respect of all projects recommended to it by the Government and for which funds are specifically provided.

2.20 Operational Program. KDB must prepare annually an Operational Program (OP) for the next fiscal year for submission to the Minister of Finance. The OP is basically a quarterly analysis of the projected uses and sources of funds. It is prepared from information supplied by KDB's operating departments and by the various ministries which may propose specific projects to be financed by KDB. On the resources side KDB outlines how it expects to raise the necessary funds from the different sources (i.e. government budgetary funds, IFDs, specialized funds and foreign sources). The OP is approved by the Minister of Finance after consultation with the Monetary Board, the State Council and the President; the forecast budgetary funding thereby becomes a commitment by the Government.

### III. OPERATIONS AND RESOURCES

#### Summary of Operations

3.01 All KDB's operations fall into one or more of the following three principal categories: (a) capital loans in foreign and domestic currency and working capital loans in domestic currency; (b) investments in equity shares, corporate and municipal bonds and debentures; and (c) guarantees in domestic and foreign currencies. KDB's loan, investment and guarantee operations for the past five years are shown in Annexes 5, 10 and 14 and are summarized below (in billion Won):

	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
<u>Loan Commitments</u>					
Domestic currency	47.1	140.7	94.5	128.9	182.1
Foreign currency	<u>13.2</u>	<u>13.3</u>	<u>10.6</u>	<u>24.3</u>	<u>21.0</u>
Total loans	<u>60.3</u>	<u>154.0</u> <sup>1/</sup>	<u>105.1</u>	<u>153.2</u>	<u>203.1</u>
<u>Investments</u>					
Equity Shares	7.5	23.4	3.0	10.7	69.4
Bond and debentures	<u>0.7</u>	<u>0.4</u>	<u>0.9</u>	<u>1.7</u>	<u>4.8</u>
Total investments	<u>8.2</u>	<u>23.8</u>	<u>3.9</u>	<u>12.4</u>	<u>74.2</u>
<u>Guarantees Issued</u>					
Domestic currency	7.5	5.0	16.8	0.3	11.1
Foreign currency	<u>108.7</u>	<u>120.2</u>	<u>296.9</u>	<u>689.6</u>	<u>540.0</u>
Total guarantees	<u>216.2</u>	<u>125.2</u>	<u>313.7</u>	<u>699.9</u>	<u>551.1</u>
<u>Total Commitments</u>	<u>284.7</u>	<u>303.0</u>	<u>422.7</u>	<u>865.5</u>	<u>828.4</u>

#### Lending Operations

3.02 Operational Trends. The rising trend in KDB's lending operations <sup>1/</sup> is emphasized by the fact that disbursements for the latest five-year period, ₩ 645.3 billion (US\$1.3 billion) account for 54% of KDB's cumulative

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<sup>1/</sup> Loan commitments in 1972 were exceptionally large because of the direct impact on KDB's operations of the economic, fiscal, and monetary measures taken by the Government in that year (emergency decree of August 3, 1972).

disbursements since its establishment in 1954 (W 1,196 billion). Total loan approvals reached W 204.2 billion (US\$495 million) in 1975, a 49% increase over 1974, and were more than three times larger than in 1971. Approvals of working capital loans accounted for 19% of total approvals in 1975, about the same proportion as in the previous two years. Total capital loans approved by KDB in 1975 amounted to W 166.1 billion of which only W 21.9 billion or 13% were in foreign currency against 21% in 1974, 11% in 1973, 10% in 1972 and 30% in 1971. Rather than a change in the nature and composition of projects financed by KDB, these variations reflect a change in the pattern of financing of imports, as a sizeable share of domestic currency loans is also used for the procurement of imported equipment and machinery. Loan commitments and disbursements have kept pace with increasing approvals over the last five years and amounted to W 203.1 billion and W 202.6 billion respectively in 1975. As of December 31, 1975 loans outstanding amounted to W 577.8 billion (US\$1.2 billion) representing 2,416 loans to 446 companies.

3.03 Analysis of KDB's Lending Operations. Annexes 6,7, and 8 show a detailed analysis of KDB's loan commitments for the years 1973 through 1975 and of outstanding loans as of December 31, 1975. Outstanding loans in foreign currency accounted for 8.5% of KDB's outstanding portfolio at end 1975. The share of the private sector in KDB's loan commitments has marginally decreased over the last 3 years from 45% to 42%. It accounted for 37.7% of total outstanding portfolio as of December 31, 1975. In terms of number of companies, the private sector is dominant with 93% of outstanding capital loans and 91% of outstanding working capital loans. This reflects the dual character of KDB's assistance to Korean enterprises: large loans to government industrial projects on the one hand and smaller loans to private industry on the other hand. This is also in line with the overall industrial structure in Korea where the Government has financed large projects with long gestation periods and low initial profitability, but the private sector is also encouraged and left free to play its role. The average size of loans committed by KDB to public sector enterprises has marginally increased over the last 3 years from W 500 million in 1973 to W 550 million in 1975. Conversely there was a sizeable increase in the average size of loans to the private sector from W 47 million to W 137 million in 1973 and 1975 respectively. At the end of 1975, loans exceeding W 200 million (US\$417,000) each, accounted for 22% of the total number of loans but nearly 87% of the total outstanding amount.

3.04 The average duration of capital loan commitments has increased from 8 to 8.4 years weighted by number of loans and from 8.6 years to 9.9 years weighted by amounts, for the years 1973 and 1975 respectively. Outstanding capital loans as of December 31, 1975 had a weighted average maturity of 8.2 years by number and 9.4 years by amount. KDB's working capital loans often have maturities exceeding 1 or even 2 years. Of the working capital loans outstanding at end 1975, amounting to W 62.4 billion, 54% had original maturities exceeding 2 years, but 53% by number had original maturities of less than 6 months. The weighted average maturity of outstanding working capital loans at end 1975 was 11 months by number and 21 months by amount.

3.05 The sectoral distribution of KDB's total outstanding loan portfolio as of December 31, 1975 follows the pattern of previous years with 37% by amount for the manufacturing sector (33% of capital loans and 68% of working capital loans). Within the manufacturing sector, basic metals industries account for 8.5% of outstanding loans, followed by transport equipment (5.8%), petroleum and coal industries (4.4%) and textiles (4.2%). The principal non-manufacturing sectors in KDB's portfolio are electricity (34.8%) and transportation (13.4%).

3.06 The geographical distribution of KDB's lending operations follows the general pattern of industrial location in Korea. KDB, however, has made some progress in financing projects in regions other than the two main industrial centers of Seoul and Busan. Compared with 50.3% of total amounts committed in 1973, Seoul and Busan regions absorbed 42.1% in 1975. In terms of outstanding amounts, a similar reduction was achieved with 42.6% at end December 1975 against 52.7% at end June 1974.

3.07 Loans Financed Under IBRD Loan No. 1095-KO. As of September 30, 1976, 31 projects had been approved by IBRD for financing under Loan 1095-KO for a total of US\$59.1 million (net of cancellations). Total investment in these projects would amount to US\$245.1 million of which KDB would finance a total of US\$63.1 million or 26%. The 31 sub-projects are expected to generate incremental export sales of US\$99.8 million annually at full capacity and to create additional employment for 7,594 persons at an average capital investment of US\$32,000 per new job. KDB calculated economic and financial rates of return for 14 projects. <sup>1/</sup> The economic rates of return (ERR) ranged from 16% to 46% while the financial rates of return (FRR) ranged from 14% to 48%. Details of subprojects financed under Loan 1095-KO are given in Annex 9. The sectoral distribution of subprojects shows that shipping companies were the main recipients, with 43% of the loan amount; metal industries come next with 23% and machinery construction 18%.

#### Investment Operations

3.08 Annex 10 gives a summary of KDB's investment operations, 1971-75. The investment portfolio which had increased at an average rate of 8% p.a. over the four-year period 1971-74 increased by 91% in 1975, mainly on account of large share transfers by the Government (see paragraph 3.23). The portfolio at end 1975 consisted of (i) equity shares, W 131.6 billion (US\$271 million) or 91% and (ii) bonds and debentures, W 13.5 billion (US\$28 million) or 9%.

3.09 Equity Investments. The average increase in KDB's investment portfolio was 9% p.a. over the four-year period 1971-74 but an unprecedented volume of shares transferred from Government in 1975 caused almost a 100%

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<sup>1/</sup> For which KDB's financing exceeded US\$750,000 the cutoff point agreed with the Bank.

increase over 1974. Annex 11 gives a detailed analysis of KDB's equity investments for the years 1973-75 and of outstanding portfolio as of December 31, 1975. Twenty-one companies of the 33 in KDB's portfolio at end 1975 belonged to the public sector and represented 83% of KDB's portfolio. Manufacturing enterprises accounted for 36% by number and 57% by amount, with chemicals and metal industries representing 14% and 30% respectively. The non-manufacturing sector amounted to 43% with construction-related and service industries taking the largest share.

3.10 KDB has acquired its equity portfolio through (a) direct cash subscriptions, (b) conversion of loans into shares and, (c) transfer of shares by the Government as a contribution to KDB's paid-in capital. The cumulative acquisition by KDB over the years 1971-74 amounted to W 44.5 billion, of which W 22.2 billion or 50% was through direct purchase, W 20.5 billion (46%) through loan conversions and W 1.9 billion only (4%) by transfer of government shares. In 1975 total acquisitions reached W 69.4 billion (56% more than total acquisitions over the previous four years). Only W 14.5 billion (21%) was through direct purchase, one loan conversion of W 4.9 billion accounted for 7% while the balance of W 50 billion (72%) was by transfer of shares. The consequences of large transfers of shares are discussed in paragraph 3.22.

3.11 Sales of Equity Investments. Capital gains on sales of equity investments amounting to W 1.3 billion and W 1.6 billion were realized by KDB in 1974 and 1975, which represented respectively 39% and 43% of the original costs. In 1973, however, KDB experienced a net loss of W 2.6 billion. Sales in 1974 represented shares in five companies, while shares in two companies were sold in 1975. Three sales in 1974 and one in 1975 were on a cash basis, the remaining being on a deferred payment basis with interest at 12% p.a. on the unpaid balance, with maturities of 2 to 9 years.

3.12 Extent of Ownership. KDB's investment in 6 companies exceeded 50% of the share capital of the companies concerned, the limit normally imposed on KDB's participations by its Policy Statement. These six companies accounted for 26% of KDB's portfolio. Two of these companies, the Readjustment Corporation (RAC) and Korea Industrial Leasing Company (KILC) are permanent subsidiaries of KDB and are in effect corporate extensions of KDB's operations. Details of these two companies appear in Annexes 12 and 13. Of the four other companies, three were already in KDB's portfolio when the present Policy Statement was adopted by KDB and no increase in KDB's participation has been made since. KDB's holding in the fourth company amounted to 52.8% of the company's share capital as of December 31, 1975, up from 31.7% at end 1974. KDB's acquisition of shares in this company during 1975 totalled W 9.4 billion consisting of W 6.1 billion in shares transferred by the Government and W 3.3 billion of direct purchase from a cash contribution to KDB's paid-in capital especially earmarked for that purpose. 1/

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1/ KDB duly informed the Bank that an exception was being made to the Policy Statement guideline in view of the favorable prospects shown by the company and of government policy to sell part of its holdings to private interests.

3.13 KDB Shareholding Act and Share Administration Fund (SAF). The KDB Shareholding Act was enacted in 1969. Under its scope fall "KDB-invested enterprises" i.e. companies in which KDB holds more than 50% of the share capital. 1/ The Shareholding Act provides for the establishment of (i) a Shareholding Administration Committee (SAC) which comprises nine members 2/ and is in charge of the control and supervision of concerned enterprises and (ii) the Shareholding Administration Fund (SAF) which is established within KDB as an autonomous fund with separate accounting. The SAF receives its resources through the sales of shares of enterprises under the SAF, and dividends received. As of Decemembr 31, 1975 the SAF had made no new investments but had granted several loans for an outstanding amount of W 5.6 billion. Of the 17 companies originally brought within the purview of the Shareholding Act there were only four at end 1975. KDB's holding in the other companies had either been totally liquidated or reduced to a minority position. The KDB Shareholding Act has proved very effective in giving KDB close control and supervision over the management and finances of the companies concerned and in influencing government policies affecting them. Most companies have shown considerable improvements in their operations thus enabling KDB to reduce its exposure. It is expected that the SAF will be phased out in the next few years.

3.14 Bonds and Debentures. The average increase in the portfolio over the past 5 years was 8.5% p.a. Municipal debentures, which accounted for 80% of the portfolio in 1971 and had risen to 90% by 1975, are subscribed by KDB at the behest of the Government. The usual interest rate is 7.5% p.a. with a 20 year maturity including 5 years grace. For subscription to corporate bonds, KDB carries out a detailed appraisal. There were three companies in KDB's portfolio of corporate bonds as of December 31, 1975. The interest rates ranged form 10% to 12% and the maturities from 2 to 5 years.

#### Guarantee Operations

3.15 KDB started guarantee operations in domestic currency in 1961 and in foreign currency in 1968. Since 1972 KDB has been issuing foreign currency guarantees directly to foreign creditors and without government counter-guarantee. KDB's guarantee operations for the years 1971 through 1975 appear in Annex 14. The outstanding guarantee portfolio as of December 31, 1975

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1/ Excluding the Readjustment Corporation which is governed by a special decree (see Annex 11).

2/ The Ministers of (i) Economic Planning Board, (ii) Finance, (iii) Agriculture abd Fishery, (iv) Commerce and Industry, (v) Construction, (vi) Transportation along with the Governor of KDB and two independent persons with expertise in business administration.

stood at W 1,480 billion (US\$3.1 billion), 2.6 times the size of KDB's outstanding loan portfolio. The average growth in KDB's guarantee portfolio over the last 4 years has been 10% p.a. The share of foreign currency guarantees issued and outstanding since 1971 has remained steady at 93% to 98% of total guarantees. While there was an increase of 157% in 1974 over the previous year, new guarantees dropped by nearly 80% in 1975. The large increase recorded in 1974 was due to the issuance of guarantees by KDB for four very large priority projects amounting to US\$1.08 billion or 92% of the total. KDB's income from guarantee fees represents a substantial part of total income (W 7.3 billion in 1975 or 11%) although amounting to 0.5% only of KDB's average guarantee portfolio for the last 3 years.

3.16 Analysis of KDB's Guarantee Operations. Annex 15 provides an analysis of guarantee commitments in 1973-75 and of KDB's outstanding portfolio as of December 31, 1975. The private sector accounted for 40% of KDB's outstanding portfolio at end 1975 but nearly 77% by number of companies. The average size of guarantees outstanding to private companies was W 8.4 billion against W 4.3 billion for public sector enterprises. Of the 90 companies in KDB's guarantee portfolio as of December 31, 1975, the 10 companies with the largest amounts of outstanding guarantees accounted for 77% of total portfolio. Korea Electric Company (KECO) was by far the largest with W 316.8 billion outstanding or 21% of KDB portfolio. 1/ The sectoral distribution of KDB's portfolio at end 1975 shows 66% outstanding for manufacturing industries, with petroleum, basic metals and transport equipment accounting for 23%, 19% and 11% respectively. Of the 34% outstanding in the non-manufacturing sector, electricity represented 22% (mainly for KECO) a sizeable reduction from 32% of KDB's portfolio at end 1973. Outstanding guarantees exceeding W 2 billion (US\$4 million) still represented 90% of KDB's portfolio at end 1975 although their share of commitments has declined in the last two years. The weighted average duration of guarantees committed has come down from 10 years in 1973 to 6.7 years in 1975.

3.17 The Guarantee Release Arrangement. Because of the excessive risks associated with KDB's very large guarantee operations, 2/ the Bank proposed a Guarantee Release Arrangement (GRA) between the Government and KDB when the First Bank Loan was made to KDB. The Government and KDB accepted that proposal. The GRA applies to all foreign currency guarantees issued or to be issued to (i) enterprises owned or controlled by Government and (ii) to priority enterprises as defined in the KDB Act. Under the GRA, Government has undertaken to provide KDB with funds necessary to enable it to meet its obligations on defaulting guarantees and should the defaulting company be unable to meet its obligations, to reimburse KDB for whatever payments

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1/ KECO is also KDB's largest borrower with W 200.4 billion outstanding.

2/ KDB's outstanding guarantee portfolio at end 1975 was twice as large as its loan and investment portfolio combined and represented 5.8 times KDB's equity.



it had to make. As of December 31, 1975, 78% of KDB's outstanding guarantee portfolio was covered under GRA. So far there has been only one default on a guarantee covered under GRA. However, it was not necessary for the Government to step in and reimburse KDB because the company itself was able to clear its arrears.

#### Interest Rates and Guarantee Fees

3.18 Interest Rates - Annex 1 (paragraphs 24 to 27) contains a general discussion on interest rates in Korea; Annex 16 shows the prevailing interest rates in Korea and those charged by KDB as of August 2, 1976. Interest rates in Korea are controlled by the Government through the Monetary Board and apply to all banking and financial institutions. KDB's interest rate structure is complex due to its many sources of funds and is further complicated by a number of priority industries <sup>1/</sup> that the Government subsidizes with low interest rates. Since August 2, 1976, when the Government raised the general level of interest rates, the rates charged by KDB range from 13% to 18% for working capital loans and from 6% to 19% for capital loans. Loans at the lower end of the scale are extended for projects that are determined by the Government as priority projects (such as loans to railroads, the electricity sector or heavy and chemical industries). The higher interest rates are charged on general loans financed from internal funds. KDB has recently started to differentiate between prime clients and other clients for working capital loans out of internal funds (17% for prime clients and 18% for others). KDB now also applies different rates depending on the duration of the loans with most domestic currency loans paying 1 or 2 percent per annum more for loans with maturities exceeding three and eight years respectively. Loans made from funds provided by international organizations are on-lent with a 2% spread above KDB's borrowing rate, and the foreign exchange risk is born by the borrower. Funds raised from foreign commercial sources and revolving funds (from KfW, AID, ADB) are on-lent in domestic currency at 12% per annum, but the borrower carries the foreign exchange risk. This rate is reviewed every quarter and is changed, when necessary, to reflect changes in KDB's own borrowing rates. The penalty rate on all overdue loans is 25%. KDB requires advance payment of interest on its working capital loans. The weighted average interest rate charged by KDB on all loans outstanding in its portfolio at the end of December 1975 was 9.4% per annum while it was 10.8% per annum for all loans committed during 1975 thus reflecting the rise in KDB's overall lending rate during 1975 before interest rates were further increased in August 1976.

3.19 Guarantee fees charged by KDB range from 1% p.a. for domestic currency repayment guarantees to 0.3% p.a. for foreign currency guarantees issued to the Korea Exchange Bank with a counter guarantee from Government. The bulk of KDB's guarantee operations are to foreign suppliers; KDB charges

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<sup>1/</sup> Priority Industries currently comprise (1) industries generating, transmitting and supplying electric power; (2) coal mining; (3) shipbuilding; (4) iron and steel manufacturing; (5) manufacturers of semi-conductors and communication equipment; (6) overseas freight lines; and (7) air transportation.

a fee of 0.58% p.a. Of all guarantees committed by KDB in 1975, the weighted average fee was 0.5%.

### Resources

3.20 As of December 31, 1975 KDB had total resources of W 861.8 billion (US\$1.7 billion) of which W 43.3 billion were short-term resources, consisting mainly of short-term deposits (W 41.9 billion). Of the total long-term resources of W 818.5 billion, 85.7% (W 701.6 billion) were available for domestic currency loans and 14.3% (W 116.9 billion) for foreign currency loans. Resources for domestic currency loans amounting to W 49.4 billion (6.2%) were raised in foreign currency. KDB's resource position as of December 31, 1975 is summarized in Annex 17. A detailed description of KDB's long-term resources is given in Annex 18, with the table attached to that Annex giving the main terms and conditions of borrowed funds.

3.21 As shown in Annex 17, KDB had total resources in domestic currency of W 744.9 billion of which only 3% (W 18.8 billion) was available for further commitment as of December 31, 1975. Since a major part of this was in the form of short-term resources (W 13.5 billion) KDB's long-term resource position was very tight. However, according to its operations program for 1976, the Government has already committed to KDB W 57.8 billion from budgetary funds and W 98.7 billion of the NIF. Borrowings abroad should also improve the position. Of its total current resources of W 116.9 billion (US\$241 million) as of December 31, 1975, KDB had disbursed 41% (W 49.0 billion) and had W 29.4 billion in undisbursed commitments, leaving W 38.5 billion for further commitments.

3.22 KDB's equity is its largest single source of funds, accounting for over 30% of the total resources. The authorized share capital is W 300 billion of which W 203.2 billion had been paid in at the end of 1975. Of this amount W 79.8 billion had been paid in cash, W 47.5 billion in the form of loan conversions and W 75.9 billion in the form of transfer of shares. During 1975, the Government's transfer of shares amounted to W 50 billion. Increasing KDB's share capital in kind does not provide new funds to KDB. Since most of the transferred shares are not traded, they cannot be readily sold by KDB. The problem is aggravated by the fact that, under existing laws, the shares are transferred on the basis of the "higher of appraised or face value" and in at least some cases, the transfer price was higher than the book/estimated value of the shares. To safeguard against the transfer of overvalued shares to KDB, the Bank sought and received a satisfactory undertaking from the Government, that in future, equity subscriptions would normally be made through cash contributions or loan conversion and that in the exceptional case when subscription is made by share transfer, the price of such shares would not exceed the appraised value.

3.23 During negotiations for the first Bank Loan, KDB's representatives stated that KDB would curtail the issuance of short-term IFD's and in the future would issue more long-term debentures, mainly abroad. During 1975 KDB

was unable to find buyers for such long-term IFD's and all the IFD's issued (₩ 17.4 billion) were for two or three year maturities, the proceeds being used for the redemption of previous short to medium term issues which had originally been used to finance long-term loans. While the short-term debentures issued helped KDB's liquidity position and made the low debt service cover less of a problem, the fact remains that the use of such short-to medium-term funds for long-term lending distorts KDB's financial structure. Moreover, the issuance of these IFD's in the domestic market is costly for KDB, resulting in a negative spread (see Annex 18, paragraph 12). KDB's management is aware of this situation and has already taken a positive measure by limiting future issuance of short-term domestic IFDs to amounts that would not exceed redemptions of IFDs falling due. During negotiations, KDB's representatives also stated that KDB would make every effort to lessen the importance of such IFDs in its total resources.

3.24 KDB has also used its commercial borrowings abroad to make loans in domestic currency and at December 31, 1975, funds thus utilized accounted for 6.2% of total resources. During 1975, however, KDB was unable to raise commercial funds abroad. In particular, plans to issue US\$100 million of long-term IFD's abroad had to be shelved because market conditions were unfavorable. Since the beginning of 1976, however, KDB has been successful in issuing IFD's for US\$15 million and US\$10 million in Abu Dhabi and in raising commercially a Eurodollar loan of US\$80 million and a loan of ¥ 5 billion (US\$17 million) from a Japanese Banking consortium. KDB now uses the proceeds of commercial borrowings abroad exclusively for onlending in domestic currency, while borrowings from official sources, such as the World Bank and ADB, are onlent in foreign currency.

3.25 Except for its borrowings from OECF and Ex-Im Bank, Japan, under the IRF for which KDB takes limited exchange risk (see Annex 18, paragraph 8), KDB does not assume the foreign exchange risk on its borrowings in foreign currency but passes it on to its clients. Even the sub-loans which are disbursed in Won currency (from foreign commercial borrowings and revolving funds) carry the exchange risk through a "maintenance of value" clause. To avoid the risk even for the short periods between collections of loans and disbursements of new loans, KDB keeps compensating deposit balances in foreign currencies.

#### IV. FINANCIAL CONDITION, OPERATIONAL PERFORMANCE AND PORTFOLIO EVALUATION

##### Financial Position

4.01 KDB's summarized Balance Sheets as at the end of the years 1971 through 1975 are given in Annex 19. As of December 31, 1975, KDB's total assets amounted to ₩ 2,311 billion (US\$4,765 million) including ₩ 1,480 billion of outstanding guarantees. Over the four year period between 1971 and

1975 total assets have increased 3.2 times. Excluding guarantees, loan portfolio accounts for 60% of the total assets; investment portfolio accounted for 17% and current assets (including current maturities of term debt) for 18% of total assets.

4.02 Of the total assets as of December 3, 1975, 31% were financed by equity and the balance by long- and short-term liabilities. Borrowings in domestic currency (₩ 385.9 billion), accounted for 76% of total long-term debt, though KDB has increased, during the past two years, its borrowings in foreign currency which as of December 31, 1975 stood at ₩ 84.0 billion or 17% of total long-term debt. Time deposits, at 7% of total long term debt, compared to 25% at the end of 1971, are no longer an important item. As of December 31, 1975, KDB had financed 18% of its total assets through current liabilities (including 10% current portion of term debt) which is about double the proportion as at the end of 1971. This increase in current liabilities occurred almost entirely during 1974 and 1975 when repayments of several government loans (including NIF loans) started and short-term borrowings increased sharply.

4.03 Liquidity Position. KDB's liquidity position deteriorated during 1975 and by the end of the year the current ratio had dropped to 1.0. There were three main reasons. First, KDB could not raise long-term commercial funds from abroad, which it had planned at the level of close to ₩ 50 billion, because of the international capital market situation. Secondly, business conditions in Korea deteriorated considerably during 1975 and as a result KDB had to reschedule a number of loans (see paragraph 4.12). Thirdly, capital contributions by the Government were largely in the form of transfer of shares (see paragraph 3.23), while cash payments were earmarked for specific projects and thus could not be used in reducing short-term liabilities. The liquidity position has improved during 1976 as KDB has been able to raise new long-term funds abroad (see paragraph 3.24) and collections have also improved. KDB's current ratio improved to 1.4 as of June 30, 1976 as it was able to reduce current liabilities by over 30% during the first half of 1976. The tight liquidity position at the end of 1975 prompted KDB to formulate a number of policies that would improve its liquidity position and bring the current ratio up to a target level of 1.5:1. The measures taken include KDB's accelerated sale of shares held, more strict matching of maturities of assets and liabilities, asking for prepayments whenever the financial capabilities of the borrowers would justify it and an appeal to the Government to pay in equity capital in the form of cash or conversion of Government loans rather than by transfer of shares. Cash Flow Statements for the years 1971 through 1975 are given in Annex 20. Despite the rather tight liquidity position, the debt service cover for 1975 remained satisfactory, being 1.25 times; the shortfall in collections was compensated by the substantial increase in KDB's net profits and because some of the loans rescheduled in 1975 were funded from Government loans which subsequently were also rescheduled. KDB's interest coverage improved to 1.73 times in 1975 from 1.53 in 1973 and 1.35 in 1974 which is attributable to KDB's higher interest income and profit.

4.04 Debt/Equity Ratio. The KDB Act stipulates that at any time the aggregate of outstanding amounts of IFD's and KDB's guarantees shall not exceed ten times its net worth. As of December 31, 1975 KDB was well within this limit (5.9 times). A long term debt/equity ratio 1/ limit of 5 to 1 is included in the Loan Agreement for the First Bank Loan and as of December 31, 1975 KDB was well within that limit, the actual ratio being 3.3:1.

#### Operational Performance

4.05 KDB's summarized income statements of the years 1971-1975 are given in Annex 21. Over the past five years KDB's profitability has been low, averaging 1.3% of total assets or 3.3% of equity. However, the profitability has improved significantly in the last two years. 1974 profits would have been better but for a non-recurring W 3.1 billion loss due to the 20% devaluation of the Won in December of that year. This loss occurred because KDB had converted proceeds of its foreign currency borrowings into Won currency before these funds were on-lent. Since then adequate measures had been taken to prevent a recurrence of such losses. In 1975, KDB's margin was 2.2% on average total assets and 6.9% on average equity. KDB's "spread" is now positive, which was not always the case in the past, and is expected to remain positive in the future as KDB is fully aware of the Bank's insistence on positive spreads. Although improved, KDB's profitability is still modest and will continue to be so because the Government, the sole shareholder, considers it essentially a developmental institution without a profit maximization function.

4.06 KDB's guarantee fee income has been an important source of profits, especially since defaults in the past from its guarantees have been few indeed (see Annex 23). KDB's income including net realized capital gains from its sizeable equity portfolio has been meager, averaging 3.5% of average investment portfolio over the past five years. KDB's administrative expenses increased 2.3 times over the past five years but decreased relative to total assets from 1.5% in 1971 to 1.1% in 1975. KDB does not pay income taxes but is required to pay a defense tax introduced in 1975, which for that year represented about 9% of its net profits.

#### Audit

4.07 As is usual in Korea, KDB's books are audited by an internal auditor, appointed by the shareholders, who is also a permanent member of KDB's Board of Directors, though having no vote. Since 1972, KDB has its accounts also audited by external auditors, who every year have given an unqualified report. For the audit of its 1975 accounts, KDB appointed, with the concurrence of the Bank, a Korean auditing firm, San Kyong & Company. San Kyong has prepared a thorough, "long form" audit report which is satisfactory although, as explained in paragraph 4.14, it is proposed to suggest a different treatment for provisions for doubtful debts.

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1/ Debt as defined under this limit excludes guarantees covered under the Guarantee Release Arrangement (see para 3.17).

### Evaluation of Portfolio

4.08 Loan Portfolio. An analysis of KDB's loan portfolio from the point of view of the operating condition of client companies is contained in Annex 22; arrears situation is analyzed in Annexes 23 and 24. Of the 446 companies in KDB's portfolio, 15 companies' projects were still under construction as of December 31, 1975. Of the 431 companies in operation, 385 companies accounting for 81% of the total portfolio were operating profitably; 33 were operating at a loss but without facing serious difficulties; and 13 companies with outstanding loans of ₩ 24.4 billion (4.4% of total portfolio) were either facing serious problems or were temporarily closed down.

4.09 As of December 31, 1975 there were 44 companies which had arrears of principal and/or interest; only 22 of them had arrears exceeding three months. The number of companies in arrears has significantly declined over the last three years from 92 companies at the end of 1972 to 44 at the end of 1975. Total arrears as of December 31, 1975 amounted to only 0.2% of the total outstanding loan portfolio. The principal amount outstanding of loans in arrears amounted to ₩ 16.4 billion or 2.8% of the total outstanding portfolio. Arrears on working capital loans have always been higher than those on the capital loans. KDB's collection performance has improved in recent years; in 1975 it was able to collect 95% of the amount falling due and payable during the year. The sectoral distribution of the arrears does not indicate any particular industrial concentration.

4.10 Some of the companies in arrears of loans have also received guarantees from KDB. The total principal amount outstanding of loans and guarantees to clients in arrears on their loan repayments amounted to ₩ 33.9 billion or 1.6% of total outstanding loan and guarantee portfolio. The value of collateral held by KDB in respect of these companies amounted to ₩ 38.2 billion. KDB does not expect to incur any loss in respect of any of these companies.

4.11 The Readjustment Corporation (RAC). When KDB has concluded that a particular loan in arrears is irrecoverable, it is transferred by KDB to RAC. The RAC was set up in 1962 as a wholly owned subsidiary of KDB in order to exercise the claims of KDB and other banking institutions through foreclosures and disposal of the acquired properties. (For a description of RAC and its operations please see Annex 12.) During 1975, KDB transferred total claims amounting to ₩ 0.4 billion to RAC. RAC settled outstanding KDB claims for a total of ₩ 1.1 billion during the year, of which it collected ₩ 0.3 billion. The amount of uncollected settlements outstanding with RAC amounted to ₩ 9.9 billion as of December 31, 1975; total receivables from RAC amounted to ₩ 14.5 billion.

4.12 Reschedulings. Because of the economic conditions during the year, KDB's rescheduling of loans during 1975 was considerably and justifiably higher than in the previous years as indicated by the following figures (in million Won).

	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
Principal Amount Rescheduled	2,492	5,333	18,696	19,712	45,655
(of which due in the year)	(1,581)	(3,972)	(16,963)	(17,396)	(29,143)

KDB contends that the significant increase in the amount rescheduled during 1975 did not indicate an easing of KDB's policy; it showed KDB's realism in dealing with the difficult situation created by the worldwide trade slump. Before any loan is rescheduled, KDB undertakes a complete reappraisal of the project and a revised amortization scheduled is based on such a reappraisal.

4.13 To summarize, if the amounts actually in arrears, all loans rescheduled, the one loan which was converted during 1975 into an equity investment, and loans transferred to RAC for collection are all taken together, the total principal amount affected would represent less than 14% of KDB's outstanding loan portfolio as of December 31, 1975. KDB's loan portfolio continues to be sound.

4.14 Provisions for Doubtful Debts. KDB makes provisions for doubtful loans on the basis of the historical record of amounts actually written off during the previous five years. The provision is made by a charge to the current income. However, the amount is shown in the balance sheet as a part of the legal reserves and is therefore treated by KDB as a part of its equity. Because the provision is not estimated on the basis of a company-by-company analysis at any given point in time, it may be an underestimate. In addition, the amount of the provision should not be treated as a part of the equity. These suggested changes were accepted by KDB which gave an assurance that they would be incorporated in the audit report on its 1976 accounts.

4.15 Guarantee Portfolio. An analysis of the companies in KDB's guarantee portfolio as of December 31, 1975 appears in Annex 22. There were, as of that date, 116 companies in KDB's portfolio with outstanding guarantees amounting to W 1,480 billion including 4 companies with outstanding claims of W 481 million the liquidation of which had been entrusted to RAC. Eighty-nine companies with outstanding guarantees of W 1,153 billion (80% of total portfolio) were operating profitably. Ten were still in pre-operational stages and 8 had suffered small losses. Five companies with outstanding guarantees amounting to W 50.1 billion (3.4% of the total portfolio) were facing serious difficulties or had closed down temporarily.

4.16 Of the guarantee portfolio comprising 116 companies, 4 were being liquidated by RAC and 5 (4.3%) were in default. Total arrears amounted to W 2,364 million (W 2,268 million of principal and W 96 million of overdue fees) or 0.2% of the total portfolio, and portfolio affected had increased to 2.1% as against 1.3% in 1974. Annexes 23 and 25 provide historical analyses of the guarantee portfolio in arrears. Of the 5 guarantees in arrears as of December 31, 1975, only one was a foreign currency guarantee, to a company

in the public sector; as such it is covered under the Guarantee Release Arrangement (GRA) between KDB and the Government (see paragraph 3.18). The other four guarantees in arrears were domestic currency guarantees made to companies in the private sector. Outstanding guarantees affected amounted to W 31,465 million. Furthermore, KDB had total loans of W 7,063 million outstanding to these 5 companies. The total principal of loans and guarantees affected by the 5 guarantees in arrears (W 38.5 billion) represented 1.9% of the total outstanding portfolio of loans and guarantees. Against the total principal of loans and guarantees affected by arrears, amounting to W 38,528 million to the five companies with overdue guarantees, KDB held collateral valued at W 45,850 million. Of the 4 guarantees entrusted to RAC, for a total of W 481 million, two accounts had been settled as of December 31, 1975 leaving an unsettled balance of W 242 million. KDB's guarantee portfolio continues to be sound.

4.17 Equity Investment Portfolio. As of December 31, 1975 KDB had equity investments in 33 companies (see Annex 11). Of these, one was still in the pre-operational stage, 22 were operating profitably and 11 were either operating at a loss or confronting serious problems. While the operational performance of the companies in KDB's investment portfolio is not quite as good as in the case of its loan portfolio, this is essentially a reflection of KDB's basic function in making equity investments. KDB's objective is (i) to assist companies that have temporary management or operational problems but offer favorable prospects in the long run, (ii) to promote companies that are financially not very attractive in the short run, but which have good long-term prospects, and (iii) to dispose of its participations once such companies start operating satisfactorily. Consistent with such a policy the dividend yield on KDB's equity portfolio remains low but realized capital gains on sales of investments have improved the total yield. The total acquisition cost of KDB's equity participations amounted to W 131.6 billion at end 1975 but was estimated by external auditors to represent a value of W 169 billion on the basis of either market value or book value. Overall, the quality of KDB's equity investments is satisfactory.

#### Collateral

4.18 In terms of the provisions of its Policy Statement and Operating Manuals, KDB is required to obtain at least 125% collateral coverage against its loans and 120% against its guarantees. However, such collateral requirements may be waived by KDB in the case of Government-owned enterprises, KDB-owned and controlled enterprises or such priority enterprises as are approved by the Board of Executive Directors. As of December 31, 1975, total loans and guarantees outstanding to such enterprises amounted to W 1,731 billion (as against a total portfolio of W 2,058 billion) and collateral pledged therefor was valued at W 755 billion. However, guarantees valued at W 1,149 billion were covered under GRA (see paragraph 3.18), and KDB's assistance to Korea Electric Company amounting to W 624.8 billion was also covered under special agreement with the Government. Against the balance of W 327 billion in outstanding loans and guarantees, KDB held collateral valued at W 415 billion, a 127% coverage. Collateral values are based on estimates made independently by the Korea Appraisal Board. They are regularly updated and are generally considered to be conservative estimates.



## V. KDB's DEVELOPMENTAL ROLE

### KDB in Perspective

5.01 KDB is by far the largest financial institution in Korea. With an outstanding loan balance of ₩ 577.8 billion (US\$1.2 billion) at the end of 1975, it accounted for 16% of total loans of all banking institutions in Korea and almost 43% of all medium and long-term loans outstanding by the banking sector. KDB directly financed 7% of total fixed capital formation during 1975 and, including its guarantee operations, it helped in the financing of 34% of total fixed investment in the country. It is the principal institution to provide long term capital to the power, transportation and manufacturing sectors, accounting for almost 100%, 74% and 35% respectively of all medium- and long-term advances by the banking sector. Its foreign guarantee portfolio of US\$3.0 billion accounts for 38% <sup>1/</sup> of Korea's total foreign medium- and long-term debt at the end of 1975.

### KDB's Role in the Government's Development Strategy

5.02 Within the framework of the Government's development strategy, KDB plays an important role both by being an instrument of the Government to execute its policies and by providing valuable input in the Government's decision making process.

5.03 KDB as an Executing Arm of the Government. In terms of its Act, KDB provides financing, in conformity with Government policies, to major industrial projects. KDB's support of Government policies is reflected in its annual Operational Program which KDB formulates on the basis of its own demand forecast and specific project proposals by various Government ministries. This OP also contains the sources from which KDB would draw funds including those provided directly by the Government through budgetary contributions and the NIF. Hence, KDB is on the one hand a direct channel for the Government to provide funds for specific priority projects, such as Korea Electric Company, Korea National Railroad or Pohang Integrated Iron and Steel Company, and on the other hand it functions as an efficient allocator of resources raised by itself independently. In 1975, for instance KDB received from the Government directly ₩ 32.6 billion and through NIF allocations ₩ 80.1 billion, which accounted for 55% of KDB's total funds for commitment during that year and 16.2 % of the Government's capital budget for 1975. In the allocation of these resources, and the funds it raised on its own, KDB emphasized Government priorities by supporting export oriented projects (its clients accounted for over 40% of manufacturing exports of Korea in 1975) and has made sizeable loans to heavy and chemical industries. (Over the last three years it has extended a total of US\$150 million or 41% of its manufacturing loans to these two sectors.)

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<sup>1/</sup> On a commitment basis.

5.04 KDB's Input in Developing Government Policies. KDB has influenced the formulation of Government policy by (i) giving its opinions on policy issues when called upon by the Government, (ii) assisting in Government sponsored studies and programs, and (iii) the participation of members of its management in various Government committees. KDB has carried out numerous studies, often including specific recommendations, which have subsequently been used as a basis for discussion within the Government or been incorporated in various policy measures. Studies that have recently been undertaken include a survey of major export industries with recommendations for specific action, forecast of supply structure and computation of investment requirements by type of industry, specific recommendations for increasing resource mobilization for the NIF, a study on industrial estates, sector studies of the ship-building and iron and steel industries, etc. KDB was also involved in drafting the Korean Industrial Leasing Law. Its studies in the establishment of a merchant banking system are reflected in the recently enacted Merchant Banking Law. For the preparation of the country's five-year plans, including the present planning exercise, KDB has provided valuable assistance by conducting surveys to build up basic targets, including sector demand/supply forecasts and investment targets. KDB is well qualified to render this service to the Government, since it has a competent, trained staff, performs regular financial and production surveys and, through its day-to-day operations, is in close contact with the business community. Particularly for this latter reason, the participation of KDB's Governor and other members of management in many Government committees provides the Government with an additional valuable perspective in its decision-making process. Committees on which KDB is represented include the Economic Cabinet Meeting, the Foreign Capital Inducement Deliberation Committee, the Industrial Rationalization Council and the Advisory Committee for Economic Planning, the NIF Management Council.

5.05 Apart from the specific contributions stated above, KDB's economic research is well recognized in Korea and many of its regular studies and surveys are published and receive wide circulation. For instance, KDB publishes an exhaustive annual survey of the financial condition of enterprises, a Monthly Economic Review, a half yearly survey on Equipment Investment and Program, a Monthly Research Report and Weekly Economic Reports which present studies on topical domestic and international issues.

#### Economic Impact of KDB's Lending to the Manufacturing Sector

5.06 KDB's manufacturing clients employ 340,000 workers (15% of total manufacturing employment), their output during 1975 was valued at US\$3.6 billion (one-third of total industrial output) and their exports in that year amounted to US\$2.1 billion, or over 40% of total manufacturing exports of Korea. The largely export-oriented manufacturing sector has been the main engine of growth in the Korean economy and has generated the steady rise over the past decade, in the standard of living of the Korean people as a whole and the increased demand for an ever-widening range of consumer goods.

5.07 In project appraisals, KDB's staff pays particular attention to the planned location of the projects and it has often been successful in persuading clients to change location, usually out of congested metropolitan areas in pursuance of a declared Government policy. KDB has particularly supported moves by client companies to Government-supported Industrial Estates: of its total loan commitments to the manufacturing sector in 1975, 23% (US\$41 million) went for projects located in Industrial Estates.

5.08 Of the total private sector clients of KDB, 82% are joint stock companies of which 15% are listed on the Seoul Stock Exchange. In comparison, the 1973 manufacturing census shows that only 13% of all companies in the country were joint stock companies of which only 4% were listed. At the end of 1975 KDB's loan portfolio included more than one third of all companies listed on the stock exchange. KDB has also supported 38 joint venture enterprises importing capital and technical/marketing know-how into the country; (the foreign partners own 44% of the total share capital).

#### Economic Rate of Return Analysis

5.09 A sample of 33 projects (including 23 Bank subloans for which KDB calculated the ERR plus ten projects selected by the appraisal mission) showed satisfactory returns as indicated below; (details are shown in Annex 26).

<u>Percentage Range</u>	<u>Number of Projects</u>	
	<u>FRR</u>	<u>ERR</u>
9.1-15.0	2	0
15.1-20.0	13	6
20.1-30.0	12	16
30.1-more	6	11
Average	23%	29%

All projects had an economic rate of return of over 15%, which is above the present Bank estimate for the opportunity cost of capital in Korea; only six projects had returns of below 20%. On the other hand, there were 11 projects with ERR's exceeding 30%, the highest being 54% for a synthetic leather and shoe manufacturing project, producing 60% for export. The calculation of the ERR's in KDB's appraisal reports was necessarily based on estimated costs and prices, while the sample of 10 projects selected by the mission were all projects in full operation for at least three years and data for past years were all actuals. It is interesting to note that the average ERR for both samples worked out to be exactly the same, namely 29%.

#### Influence on Project Design and Technical Assistance

5.10 KDB's influence on project formulation is to a certain extent limited since project sponsors often approach KDB after basic decisions such as to product, technologies or location have been taken and are not, or only with difficulty, reversible. Nevertheless, KDB's appraisal staff has made sustained efforts to improve the design of projects under consideration, and

often its proposals for change have been accepted by project sponsors. In various instances KDB's suggestions have resulted in changes in scale of operations, composition of products to be produced or even location of the plant site. With respect to plant location KDB has been particularly concerned to induce companies to locate in industrial estates. KDB's thorough market analyses have led some sponsors to change their marketing strategies and in a few cases it has led to the postponement or cancellation of projects. KDB's technical staff carefully examines technical capabilities of sponsors, particularly if new technologies are to be introduced and has urged project sponsors to enter into technical collaboration agreements with foreign companies, when appropriate. The type of equipment to be procured is normally checked with respect to local availability and KDB's suggestions have often led to savings in foreign exchange and/or project cost. The financial structure of prospective client companies is always carefully scrutinized leading in many instances to increased capital contributions by the sponsors (see paragraph 5.13). In addition KDB provides consulting services to those clients confronted with managerial difficulties, often in the form of deputation of its own staff. To improve appraisal quality of Korean banks, KDB keeps special files on all customers that have received loans exceeding W 50 million. Other banks have, on request, access to these files. KDB's technical department performs, for the Foreign Capital Inducement Deliberation Committee, engineering surveys on all proposed projects requesting foreign loan guarantees.

#### Resource Mobilization

5.11 As a wholly owned Government development bank, KDB depends to a large extent on funds provided by the Government, particularly since the majority of its loans is for long maturities (75% of equipment loans extended during 1975 had maturities of 8 years or more) and it is not possible to raise funds of similar maturities in the capital market in Korea. Consequently the Government accounts, directly or indirectly, for 71% of KDB's total term resources in the form of equity (31%), direct loans (18%), loans to and subscription of IFD's under the IRF (7%) and allocations under the Tourism Development Fund and National Investment Fund (15%). KDB's domestic currency resource mobilization at market rates has been limited to the issuance of Industrial Finance Debentures (8%) that were subscribed by commercial banks (27%) and individuals (73%) and even these funds could only be raised at a negative margin (see Annex 18, paragraph 12).

5.12 In its foreign currency resource mobilization KDB has been more successful. Loans raised from commercial and official sources accounted for 17% of total resources at the end of 1975 and would have been higher but for the general deterioration in the international financial climate during 1975. This year KDB already has issued US\$25 million IFD's in the Middle East, a Eurodollar loan of US\$80 million and a commercial loan of US\$17 million in Japan. KDB is now planning to establish a Merchant Bank with foreign participation to give a new impetus to its efforts to raise funds internationally.

5.13 Apart from raising funds directly as described above, KDB has been able to mobilize resources indirectly by inducing its clients to increase the

proportion of equity financing in total project costs. An indication of KDB's success in this regard is obtained from the fact that in 9 of 31 IBRD financed subprojects, KDB was able to persuade its clients to increase their capital contributions by a total of US\$7.6 million (8% of total project cost or 37% of KDB's loans for these projects) above the levels originally envisaged by the sponsors. Overall, KDB's share in average project financing is about 40% which means that each unit of its lending induces one and a half additional units of investment.

## VI. PROSPECTS

### General Outlook

6.01 Despite the oil price increases, raw material shortages and subsequent world wide recession, the Korean economy grew by 7.4% in 1975 mainly because of the relatively good export performance during the second half-year and record harvests of rice and barley. The goal of economic planning for 1976 and subsequent years is the achievement of the maximum rate of growth consistent with the maintenance of internal financial stability and a sound balance of payments. To this end the export-oriented manufacturing sector is expected to continue to be Korea's engine of growth, though the deepening of the industrial structure, with the aim of increasing the domestic value added in exports, will receive increasing attention by the Government.

6.02 In this context, the Korean authorities have recognized that efforts to deepen the industrial structure must proceed selectively and investments must be geared to expand capacity in industries which are skill-intensive, reflecting the country's international comparative advantage. This recognition has led to significant modification of the long-term investment plans which had been prepared in 1973, specifically, a postponement of planned rates of expansion of petrochemical and steel production capacity and a shift of priorities towards electronics and machinery, which are relatively more labor intensive and have shorter gestation periods. The vast amounts that are expected to be spent for industrial investment (close to US\$9 billion over the Fourth Five Year Plan period, 1977-1981) will put a heavy burden on Korea's financial sector. KDB is well placed to help in the mobilization and efficient allocation of these funds and to be a leader among the Korean financial institutions in helping to achieve the overall economic goals.

### Forecast of Commitments

6.03 Detailed forecasts of KDB's business are given in Annex 27. Forecasts of commitments are summarized below (billion Won):

	<u>Domestic Currency Loans</u>	<u>Foreign Currency Loans</u>	<u>Total Loans</u>	<u>Investments</u>	<u>Total Commit- ments</u>
1975 (actual)	182.1	21.0	203.1	74.2	277.3
1976	188.6	32.4	221.0	31.4	252.4
1977	230.9	36.1	267.0	18.6	285.6
1978	280.1	37.8	317.9	19.9	337.8
1979	341.5	43.3	384.8	21.9	406.7
1980	415.1	45.1	460.2	23.9	484.1

The 1976 commitment estimates are based on firm Operational Program. Loan commitments in 1976 will be moderately higher compared with those in 1975. Beyond 1976, the estimates of loan commitments in domestic currency are made on the basis of the rate of growth in recent years tempered by a judgement about resource availability (loans to be funded from general government borrowings are estimated to increase at the rate of 25%; loans to be funded from National Investment Fund borrowings are estimated to grow at the rate of 20% which is the estimated rate of increase of NIF itself; and new commitments of loans to be funded from Industrial Rationalization Fund are estimated to be equal to collections of past loans made from IRF as no new funds will be available). Equity investments, all in domestic currency, are estimated to be at more normal levels after 1976; these were abnormally high in 1975. Loan commitments in foreign currency are projected on the basis of KDB's estimates of the availability of foreign currency resources from official sources. Foreign currency resources raised by borrowings from commercial banks will be used by KDB in its domestic currency operations. The projected volume of operations is fully attainable from an institutional, management and staff point of view; the actual level of operations will be determined by resource availabilities rather than restricted by a lack of demand for capital. The business forecast is, in fact, conservative and the actual performance may be considerably better.

#### Resource Requirements

6.04 For the three-year period 1976-78, KDB will need total capital resources of W 875.8 billion as follows:

##### Loan Commitments

Domestic currency	W 699.6 billion	
Foreign currency	<u>106.3 billion</u>	W 805.9 billion
Equity Investment Commitments (domestic)		<u>W 69.9 billion</u>
Total		<u>W 875.8 billion</u>

The projected 13% ratio of foreign currency loan commitments to total loan commitments over the period 1976-1978 represents a marginal increase from the 12% share of foreign currency commitments for the period 1971-1975. It should, however, be noted that the projected foreign currency loan commitments do not measure the total import requirements of KDB's clients. Such requirements are considerably larger; a portion of domestic currency loans is in fact converted into foreign exchange and spent on imported plant and equipment. The figure of foreign currency loan commitments, represents direct imports which will be funded from borrowings from international institutions.

6.05 To meet the projected commitments, KDB's resource planning for the same period, 1976-78 envisages raising funds from various sources as follows (Won in billion):

Balance of uncommitted resources, 1.1.76	44.7
Increase in paid-in capital	53.7
Collections (net of repayments)	145.7
Sale of investments	31.9
Borrowings from	
Government	106.1
National Investment Fund	352.7
Foreign Commercial Banks	72.7
Asian Development Bank	24.2
KfW	7.6
Industrial Finance Debentures (foreign)	60.6
	<u>899.9</u>

In addition, KDB's plans include two loans from the Bank, amounting to ₩ 87.3 billion (the proposed loan and another loan in 1978).

6.06 Of the surplus of projected resources over estimated loan and investment commitment requirements ( $₩ 899.9 + ₩ 87.3 - ₩ 875.8 = ₩ 111.4$  billion), ₩ 95.6 billion would be absorbed in improving KDB's liquidity position (see projected balance sheets; current ratio is projected to improve from 1:1 as at the end of 1975 to 1.6:1 as at the end of 1978). On the basis of these figures, KDB will start the year 1979 with uncommitted resources of ₩ 15.8 billion only. However, depending on the state of the international capital markets, KDB may be able to borrow more than the projected amounts, thus reducing the risk that its liquidity position would be squeezed again or that its operations would be constrained. It has, in fact, already contracted foreign commercial loans of \$97 million over and above the amounts included in its borrowing program for 1976. KDB's borrowing program is given in Annex 28.

#### Financial Projections

6.07 KDB's projected balance sheets as at December 31, 1976 through 1980 are given in Annex 29. The annual growth rate of total assets during

the projected period, 19%, is considerably lower than that in the last five years. KDB has assumed a lower growth rate on the basis that the very high rates of growth of the first half of the seventies cannot be sustained indefinitely. As remarked earlier in paragraph 6.03, KDB's level of operations and hence the size of its total assets will in all probability be determined by its ability to raise resources. The projected growth rate of total assets is the result of KDB's perception of what it can accomplish in terms of resource mobilization.

6.08 As to the composition of projected total assets, loan portfolio is estimated to increase 2.8 times to W 1,422 billion during the five year period, and at the end of 1980 would account for 72% of total assets compared with about 60% at the end of 1975. Current assets will account for about 21% of total assets at the end of 1980 compared with about 18% at the end of 1975; the current ratio will improve from 1:1 at the end of 1975 to 1.3:1 at the end of 1980 after being even better during the intervening years. Equity investment portfolio will decline in relative importance; it will account for only about 10% of total assets at the end of 1980 compared with 17% at the end of 1975.

6.09 On the other side of the Balance Sheet, long-term borrowings are estimated to double between 1976 and end of 1980. KDB's equity is projected to increase by 1.8 times during the same period to amount to W 451.9 billion at the end of 1980. Total debt to equity ratio (including in debt all guarantee obligations not covered under the Guarantee Release Arrangement) will increase from 3.9 at the end of 1976 to 5.2 at the end of 1980. Long-term debt/equity ratio, as defined in the Bank Loan Agreement will increase from 3.2 at the end of 1976 to 4.3 at the end of 1980 and will still be within the 5:1 limit provided in the Agreement.

6.10 KDB's projected Income Statements for the years ended December 31, 1976 through 1980 are given in Annex 30. Based on the forecast of commitments and disbursements, Annex 27, net income is expected to increase from W 14.1 billion in 1976 to W 28.7 billion in 1980. Throughout the period of projections, KDB is expected to have a positive spread even on borrowed funds albeit a small one, which has not always been the case in the past. Future profitability is expected to remain reasonably satisfactory with return on total assets ranging between 1.5% - 1.7% and on equity between 5.2% - 6.7%.

6.11 Projected Cash Flow Statements are given in Annex 31. With an improving liquidity position and declining share of relatively short term resources (deposits and domestic IFDs) in KDB's total resources, the debt service cover is expected to improve in future years from 1.06 times in 1976 to 1.24 times in 1980. Even with the improvement, the debt service cover will remain modest because some of KDB's borrowings have back-to-back repayment requirement (World Bank and ADB) and some others (foreign commercial borrowings) are for medium term (mostly five years) and net earnings provide only a modest cushion. KDB will need to continue to do skillful resource planning and management. KDB's projected indicators of financial and operational performance are given in Annex 32.



### Proposed Bank Loan

6.12 Amount. As stated in paragraph 6.05, KDB's intermediate-term borrowing program includes two loans from the Bank, amounting to ₩ 87.3 billion in total (US\$180 million). It is recommended that the Bank consider \$82.5 million as the amount for the proposed loan, of which \$7.5 million would be for its subsidiary, KILC.

6.13 Objectives. One of the two principal objectives of the proposed loan is to continue the Bank's institution building role and beneficial impact on KDB as a whole. Specific actions in this regard have been indicated at various points in the report. 1/ Transfer of resources to well appraised projects will be the other principal objective. KDB has demonstrated its ability to use Bank funds efficiently on projects which are economically justified and financially attractive. However, as pointed out in paragraph 2.14, KDB will now add one more dimension to its appraisal standards and criteria: employment impact. During negotiations KDB accepted the Bank's suggestion that its appraisal reports in the future would explicitly deal with the aspects of choice of technology and more labor intensive production processes. KDB has indicated that the bulk of the proposed loan would be used in financing projects in the manufacturing sector, which in the Bank's judgement will continue to be the leading growth sector. KDB has indicated that the proceeds would be lent to the private sector, although the public sector would also be eligible to benefit. Direct imports only will be financed. Under Loan 1095-KO, sub-loan maturities have ranged (with two exceptions) from 10 to 15 years including grace periods of 1.5 to 3 years, with a weighted average loan life of 12.4 years. The pattern is unlikely to change materially in the future.

6.14 For the KILC portion of the loan, US\$7.5 million, it is proposed to have specific project eligibility criteria. The aim is to experiment with a well managed leasing company as an intermediary to reach small scale enterprises and to have a favorable impact on urban employment. Enterprises with total assets of up to ₩ 600 million 2/ or projects with estimated cost of up to US\$15,000 equivalent per new job created would be eligible. However, if KILC seeks exemption from these limits for projects in health care (e.g. hospitals) and academic (e.g. schools, scientific research institutions) fields, the Bank would agree subject to a cumulative maximum of US\$1.5 million, 20% of the proposed loan amount for KILC. It has further been agreed that (i) the loan to KILC be on a fixed schedule for fifteen years so that KILC's resources are augmented by "revolving funds" (typical lease periods are up to six years) which it will be able to relend without incurring exchange risk (on

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1/ Paragraphs 2.10, 2.13, 2.14, 2.19, 3.22, 3.23, 4.03 and 4.14.

2/ The limit of ₩ 600 million conforms with the definition of small scale enterprises in Korea for lending in foreign exchange.

"maintenance of value" basis, which is not uncommon in Korea), and (ii) since the machinery and equipment required by some small lessees would be procured locally, the Bank would finance the foreign exchange component, estimated at 60%, of locally procured equipment.

6.15 In order to obtain a reasonable sectoral distribution of the sub-loans, no more than 25% of the proposed loan amount would be used to finance projects in any non-manufacturing sector; within the manufacturing sector, this percentage would apply to individual industries. KDB will also use US\$5 million of the proposed loan for the domestic construction industry in view of the potential this industry possesses for job creation. Also, in order to ensure that the bulk of the proposed loan is not used for just a few very large projects, it is proposed to limit the size of a normal single sub-loan to a maximum of US\$5 million but to allow larger sub-loans on an exceptional basis if requested by KDB after its Board has deliberately and explicitly concluded, on the basis of the merits of the project, that it should request the Bank to agree to exceptional treatment. The projections show that KDB will not exceed the 5:1 debt/equity limitation stipulated in the first Bank Loan Agreement in the foreseeable future, and no change is proposed in the debt/equity ratio limit. The "free limit" is proposed to be increased from US\$750,000 to US\$1.5 million; with the proposed "free limit," the Bank could still expect to receive projects for prior approval accounting for 70% of the proposed loan amount. Subproject submissions from KILC to the Bank would be routed through KDB since KDB will be the primary obligor. However, it is proposed to set up separate and detailed reporting requirements for KILC and to have semi-annual supervision missions instead of the more normal annual supervision.

6.16 Agreements Reached. During negotiations for the proposed loan, understandings were reached with KDB (recorded in agreed minutes) on the following:

- (a) KDB's appraisal reports, in the future, will deal explicitly with the aspects of the choice of technology and more labor intensive production processes so as to indicate that due weight was given to the employment effects of the sub-projects. Also KDB will enlarge the scope of the economic rate of return analysis (paragraphs 2.13 and 2.14).
- (b) In the interest of the diversification of KDB's overall portfolio and specifically for the diversification of KDB's on-lending of IBRD funds, KDB will not lend more than 20 to 25% of the proposed loan to any one sector other than manufacturing; within the manufacturing sector, the 20-25% limitation will apply to individual industries. KDB will also use \$5 million of the proposed loan for the domestic construction industry in view of the potential this industry possesses for job creation (paragraph 6.15).

- (c) Lending from the KILC portion of the proposed loan will normally be limited to enterprises with total assets of up to W 600 million or projects with estimated cost of up to US\$15,000 equivalent per new job (paragraph 6.14).
- (d) An arrangement between the Government and KDB, whereby the Government would in affect assume the risks on projects which KDB finances acting as an agent only (paragraph 2.19).
- (e) An understanding by the Government to normally increase KDB's capital through cash contributions or loan conversions. If under exceptional circumstances subscriptions by the Government to KDB's capital would be made by way of share transfer, the transfer price of such shares would not be lower than their appraised value (paragraph 3.22).
- (f) A phasing out schedule of the cases which exceeded the new financial prudence limits set in KDB's Policy Statement of April 9, 1975 (paragraph 2.10).
- (g) KDB would make an account-by-account analysis, in collaboration with its external auditors to determine the appropriate provisions during the course of audit of its 1976 accounts and that such provisions would be properly treated in its balance sheet (paragraph 4.14).
- (h) KDB would make every effort to lessen the importance of short-term IFD's in its total resources.



KOREA DEVELOPMENT BANK

Economic, Industrial and Financial Environment

I. Economic Overview

1. For a detailed review of the recent economic situation and prospects please refer to the Bank's last economic report of Korea: Current Economic Position and Prospects of the Republic of Korea, May 26, 1975, 768-KO. The most recent developments are discussed in the President's Report on a Program Loan to the Government of Korea, dated February 17, 1976. A Basic Economic Mission visited Korea in June-July 1976; its report is under preparation.

2. Overall Economic Performance - In the 1970's the Korean economic situation has been subject to sudden and sharp changes (see Economic Reports No. 768-KO of May 1975 and No. 332-KO of February 1974). Following a period of rapid economic growth the Government undertook a stabilization program during 1970-72 as a result of which real investment did not increase and the growth of real GNP slowed to 8% per year. In 1973, international demand grew rapidly and Korea took full advantage of its opportunities. As a result, there was an unprecedented boom: real GNP grew by 16.5% and export volume by 57%; national savings rose to 22% of GNP and foreign savings financed only about 15% of total investment. However, the situation changed rapidly as the energy crisis and worldwide recession hit the Korean economy. Fueled by sharp increases in import prices (55% for the whole of 1974) the domestic wholesale price index jumped by 42% in 1974 after it had averaged 9% the preceeding five years. Export prices on the other hand rose at a slower rate resulting in a deterioration in the terms of trade of around 19%. At the same time, domestic real demand began to soften and the recession in the industrial countries which absorbed over 85 percent of Korea's exports in 1973, greatly slowed the export drive. As a result of these developments, economic indicators for 1974 were markedly lower than in the exceptional boom year of 1973. GNP grew by 8.2 percent, exports and imports (by volume) by 9% and 4% respectively, national savings as percentage of GNP dropped to 19%, the current account deficit rose from US\$309 million to US\$2.04 billion while at the same time net foreign exchange reserves dropped from US\$1.1 billion to US\$0.3 billion.

3. The slowdown in domestic production would have been greater but for various government measures to sustain employment which during 1971 to 1975 grew at an annual rate of 3.9%. In December 1974, the currency was devalued by 17.5 percent to Won 485 to US\$1. Special credits were extended through the banking system to enable industry to finance accumulating inventories, and the Government purchased excess inventories of finished goods from industries particularly hard hit by the fall in export demand. Subsidized credit was also extended to small firms and exporters to ease their financial situation.

4. In 1975 Korea continued to face a protracted recession in international demand for its exports and added pressures on its domestic resources. The international terms of trade again deteriorated in 1975 (by about 10 percent), to bring the total terms of trade loss in 1974 and 1975 to about 7 percent of GNP (at 1970 prices and exchange rates). At the same time, domestic prices continued to rise and, by the end of 1975, the domestic wholesale price index was 20% ahead of the level of 1974. Consumer demand continued to be weak, for instance, the retail trade index for Seoul was about 9% lower in 1975 than in 1974, while investment activities grew slower in 1975 than in 1974 and particularly 1973. Despite the continued weakness of domestic demand, the industrial production index rose by 19% during 1975 owing partly to official intervention to purchase finished products of export industries and partly to a sharp increase in the export volume in the latter part of 1975. Because of the continued growth in industrial and other activities including agriculture, the unemployment rate remained fairly stable at 4.1% during 1974 and 1975. The rise in exports in 1975 of 13% was remarkable considering the market conditions and was mainly due to strong efforts to diversify the concentration of exports geographically and product-wise. Thus, while in 1973 70% of Korea's exports went to the United States and Japan the share of these countries in 1974 and 1975 dropped to 64% and 55% respectively. Particularly, Korea has made, with some success, great efforts to enter the market for manufactured products in oil exporting countries, and during the past year has also won sizeable construction contracts in the Middle East.

5. Current Prospects. In 1975, the real GNP is estimated to have risen by 7.4% because of the relatively good export performance and record harvests of rice and barley. Exports have grown by around 13% (at current prices) while the growth of imports was contained to around 4% (at current prices); the trade deficit thus has declined by over US\$300 million as compared to 1974. Nevertheless, for 1975 the current account deficit still reached US\$2.0 billion, the same level as in 1974, while it is expected to drop to US\$1.5 billion in 1976. Since net resource had already decreased to a rather low level through substantial draw-downs in 1974, the 1975 deficit was financed to a larger share by medium and long term capital movements (57% as compared to 42% in 1974) and other short term capital and bank borrowings (41%; 14% in 1974). In 1976, the share of medium and long term capital movements in covering the deficit is expected to further increase to 78%, the bulk of the increase being from official sources such as the Bank and ADB, while other short term capital and bank borrowings would decrease to 18%. The rate of fixed investments is projected to be sustained, in 1976, at 1974 levels of about 24.5 percent of GNP. The great bulk of investment resources will continue to go to the manufacturing sector and immediately associated infrastructure requirements, with export growth being one of the principal criteria in selecting investment projects. The ratio of national savings to GNP was 18.1% in 1975 and is expected to be around 18.5% in 1976 and should continue to improve, resulting from the variety of measures being undertaken by the Government to improve public savings and from the expected favorable response of private savings to the control of inflation.

6. The goal of economic planning for the Fourth Five-Years Plan (1977-1981) is the achievement of the maximum rate of growth consistent with the maintenance of internal financial stability, employment creation, a sound balance of payments and a wider distribution of the fruits of growth. To this end the export oriented manufacturing sector is expected to continue to be Korea's engine of growth. In order to respond to emerging changes in Korea's competitive advantage and with the aim to increase the domestic value added in exports, the Government is also paying increased attention to the deepening of the industrial structure. In recognition of constraints on foreign earnings and external borrowings, there has been a significant downward modification of the expected rate of growth of the economy. Previously, long-term plans envisaged a growth of 11% p.a. in GNP; the current expectations for the Fourth Plan are in the region of 9%. As with the lowering in growth forecasts it also became evident that long-term investment plans would have to be modified to lower similarly planned rates of expansion of heavy industries especially petrochemical and steel production capacities, to shift priorities towards electronics and machinery. These sectors are relatively more labor intensive, thus more readily applying Korea's competitive advantage, and have a shorter gestation period, thus having a more immediate impact on the balance of payments. The continued growth of labor intensive technologies will be even more important since Korea will have to create an estimated two million jobs over the Fourth Plan period, half of which are planned to be provided by the Industrial Sector. Despite Korea's recent export performance under difficult circumstances and the demonstrated flexibility of economic policy making, the recovery of international demand is the most important element which will determine the extent to which the Korean economy will be able to achieve the Government's goals, or exceed them.

## II. INDUSTRIAL SECTOR

7. The Role of Industry in the Economy. Since the early 1960's manufacturing has been the fastest growing sector in the Korean economy with an average annual growth rate of 19% over the last five years, accounting for 49% of the increase in GNP during that period. Its share of GNP has increased from 21.6% in 1970 to 28.0% in 1975 being the largest sector in the economy. The success of Korean manufacturers in capturing markets abroad has been one of the main factors in the rapid development of the Korean economy in recent years. In 1975, for instance, exports of manufactured goods amounted to US\$4.1 billion or 82% of total commodity exports (up from US\$650 million or 77% in 1970) and accounted for over one fifth of the Korean Gross National Product in 1975 (8% in 1970). In 1975 over 2.1 million persons or 18.1% of the labor force were employed in the manufacturing sector (up from 13.2% in 1970) and of all new jobs created over the past 5 years in Korea, the manufacturing sector provided almost 40%. Although Korea has undertaken many capital intensive industrial projects in recent years the share of the manufacturing sector in the country's domestic fixed capital formation has remained very stable amounting on the average to 22.7% over the last five years comparing to 22.8% for the preceeding five years.

8. Current Performance. The manufacturing sector's value added is estimated to have increased by close to 12% in real terms in 1975, compared

to 17.5% in 1974 and a record growth of 30.9% in 1973. The slowdown in growth was caused by the effects of the worldwide recessions in 1974 and 1975 on Korea's exports of manufactured goods and the export growth rates of nearly 40% in 1974 and 12% in 1975 were largely due to price increases though the volume of exports picked up again during the second half of 1975. The production index for manufacturing industries rose by 19% in 1975 compared to 27.6% in 1974, whereby the growth was about twice as high in the second half of the year than in the first half. While production increases in 1974 went to a large extent into build-up of inventories, which grew at 45.9%, shipments in 1975 grew faster than production indicating a relative reduction in inventories. The recovery in the second half of 1975 was led by textiles, wearing apparel, leather and footwear which grew by 35%, mainly due to a recovery in export demand. Fabricated metal products, machinery and equipment grew also at a satisfactory rate (18%), while basic metals grew by only 9% compared to the record growth rates of 87% in 1974, mainly because of the weakness of demand in export markets.

9.        Structure of Industry. Measured in terms of value added in 1974, light manufactures accounted for over two-thirds of total industrial value added. The growth performance of the sub-sectors varied but was very good throughout as the following table shows (amounts in billion Won).



	<u>1969</u>			<u>1974</u>			Growth Rate % <u>p.a.</u>
	<u>Value</u> <u>Added</u>	<u>/a</u>	<u>%</u>	<u>Value</u> <u>Added</u>	<u>/a</u>	<u>%</u>	
<u>Light Manufactures</u>							
Food, beverage, tobacco	136.5	28.9		248.2	21.2		12.6
Textile, footwear, leather	97.3	20.6		354.5	30.1		29.2
Wood, furniture, paper, printing	40.2	8.5		64.4	5.5		9.9
Rubber, clay, glass, stone products	30.3	6.4		64.4	5.5		16.2
Electrical equipment <u>/b</u> , plastics	<u>10.0</u>	<u>2.1</u>		<u>80.1</u>	<u>6.8</u>		<u>51.5</u>
<u>Sub-Total</u>	<u>314.3</u>	<u>66.5</u>		<u>811.4</u>	<u>69.3</u>		<u>20.9</u>
<u>Heavy Manufactures</u>							
Chemicals, petroleum and coal	75.5	16.0		160.1	13.7		16.2
Basic metal, metal products	18.6	3.9		49.0	4.2		21.3
Machinery (incl. electrical <u>/c</u> ,	23.8	5.0		49.3	4.2		15.7
Transport equipment	<u>31.7</u>	<u>6.7</u>		<u>71.4</u>	<u>6.1</u>		<u>17.6</u>
<u>Sub-Total</u>	<u>149.6</u>	<u>31.6</u>		<u>329.8</u>	<u>28.2</u>		<u>17.1</u>
Other	<u>9.1</u>	<u>1.9</u>		<u>31.9</u>	<u>2.7</u>		<u>28.6</u>
<u>TOTAL</u>	<u>473.0</u>	<u>100.0</u>		<u>1,173.1</u>	<u>100.0</u>		<u>19.9</u>

/a At 1970 constant prices (GNP deflator for the manufacturing sector: 12.1% p.a.).

/b Includes manufacture of radio, television and communication equipment and apparatus and manufacture of electrical appliances and housewares.

/c Excluding industries listed in footnote /b.

Source: Bank of Korea, National Income of Korea, 1975

In 1974 the Korean manufacturing activities were still concentrated in the more labor intensive light industries sector which accounted for over two-thirds of the manufacturing value added in 1974. Textiles, footwear and leather is the largest sub-sector and, together with food, beverages and tobacco, accounted for over 50% of industrial output. The slight increase in the share of light manufactures over the past 5 years was mainly due to the excellent export performance of the textiles, leather and small electrical equipment industries. The increased emphasis of the Government on the deepening of the industrial structure, on the other hand, have not yet been reflected in 1974 output figures as several heavy industries projects have only been completed recently or are only in the planning stage.

10. Of a total of 23,000 industrial enterprises in Korea in 1973 <sup>1/</sup> 96.5% employed less than 200 workers each. However, in terms of employment and valued added, such enterprises accounted for only 40% and 27% of the total, respectively. Despite adequate promotional policies and availability of finance, the relative importance of small and medium sized enterprises in the total industrial structure has been declining as the Korean economy expanded and modernized. In 1973, for instance, small enterprises accounted for 22% of total fixed investment while it was 31% in 1968. Small enterprises' share in total value added (from 36% to 27%) and total employment (from 54% to 39%) has also declined since 1968. Nevertheless small and medium scale industries in Korea are competitive with many large scale enterprises and perform important ancillary functions. An indication of the economic viability of small and medium industries is given by their exports which have quadrupled between 1970 and 1973 and accounted for 37% of total exports in 1973 compared to 32% in 1970.

11. The largest industrial centers in Korea still are the cities of Seoul and Busan which accounted for 34% of enterprises, 50% of employment and 45% of output of the manufacturing Sector. However, the Government has become increasingly aware of the need for a wider geographical location in order to achieve a better regional distribution of employment opportunities and to reduce the congestion and overcrowding in Seoul and Busan. The Government has therefore been promoting the development of industrial centers outside these two areas, mainly through the establishment of free trade zones and industrial estates some of which are planned to eventually become fully integrated industrial complexes of both large and small-medium enterprises. The Government provides special incentives for companies to move to such estates and by the end of 1975 Industrial Estates and Export Zones accounted for around 5% of industrial enterprises, 9% of industrial employment and 25% of manufactured exports of Korea.

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<sup>1/</sup> Figures in this and the next paragraph are based on the latest manufacturing census, 1973. The census does not define "small", "medium" and "large" enterprises but the Small Industry Basic Act defines small and medium industries as enterprises with less than 200 workers or with total assets of less than W 50 million.

12. Financial Position 1/. As a result of the remarkable performance of the Korean economy in 1973 industrial enterprises were able to improve their financial position and performance considerably. Business profits had been seriously affected by the slowdown in economic activity during 1970-72 and the Government had to take strong measures to improve the financial position of business enterprises, in particular their debt structure which had been heavily dependent on the high cost, short-term 'curb' market for financing. The aggregate debt/equity ratio 2/ of manufacturing enterprises fell from 4.2 in 1971 to 2.8 in 1972 mainly as the result of these measures. This ratio fell further in 1973 to 2.6. Average interest on borrowed funds fell from 14.1% to 9.3% as a result of the debt restructuring. Profitability also improved markedly during the period; net income as a percentage of total liabilities and net worth increased from 0.5% in 1971 to 6.9% in 1973. Increases in production costs tended to lag behind price increases as demand for Korea's manufactured goods picked up rapidly. Due to the slackening demand at home and abroad, the favorable trend of 1973 was reversed in 1974. Profits decreased to 4.4% relative to total assets (decreasing in absolute terms by about 17%) mainly due to a disproportionately large increase in the cost of goods sold (64%) as compared to the increase in the sales volume (40%). Enterprises had to resort to increased borrowings, particularly short-term bank and trade credits and the debt/equity ratio increased to 3.0 from 2.6 in 1973. Over 60% of the borrowings was used to finance the increased inventory, which rose from 17.1% of total assets in 1973 to 20.8% in 1974. It is interesting to note that despite the deterioration in the financial structure of enterprises, the loss due to bad debts, though increasing by 13% in absolute terms, slightly decreased in proportion to sales during the period. However, this seems to have been mainly due to the build up of sufficient reserves in 1973 and may have been reversed in 1975, as reportedly business failures have increased.

13. Industrial Policies and Development Strategy. In order to promote industrial development in general and to direct industrial investment to particular sectors, the Government provides various incentives, the package of which includes reductions in corporate, business and income tax rates, deferment, reduction or exemption from duty, easy access to credit, preferential interest rates and depreciation and other allowances. Incentives are also extended to attract foreign investment, encourage public ownership of closely held companies and to promote decentralization of industries. Besides these incentives, a number of other measures aim solely at the small-medium scale industrial sector. Export incentives have very successfully been provided to industry though recently such incentives had fallen somewhat compared to the late sixties and early seventies as the adjusted real effective exchange rate had fallen from a high of 557.2 in 1973 to 458.2 in the middle of 1975 and

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1/ The analysis in this paragraph is mainly based on KDB's "Financial Analysis" which contains the results of the annual survey of a sample of over 800 industrial enterprises.

2/ Liabilities divided by net worth.

which was since further eroded through a faster inflation in Korea than in her trading partners. To direct imports and to protect certain industries the Government has set up a system of import licensing, advance deposits and tariffs which ranges from the free import of raw materials for which import licenses are automatically approved to the import of non-essential goods with import duties exceeding 50% and requiring advanced import deposits to luxury and other items, the importation of which is altogether prohibited. Of the 1,312 SITC basic items 66 were prohibited from imports in the first half of 1976, while 590 were restricted. Between 1973 and 1976 such restrictions or prohibitions affected between 13 and 26% of total imports. Advance deposits are required for most categories of imports. They are to be made mostly at the time of the issue of the corresponding import license and are retained for 90 days or up to the time of actual settlement, whichever is longer. Advance deposits range from 0% for raw materials for exports and oil to 5% to 10% for grains and 20% for non essential goods. Korea's tariff structure implies a nominal tariff rate of 31.3% (38.8% before 1973). The number of exemptions, however, is substantial so that the effective tariff rate, measured as total duty collection over total imports has amounted to only 5% in 1975.

14. Over the last decade planning for the development of industry centered around the aim of expanding the export of manufactures rather than on concentrating entirely on import-substitution, as many developing countries had done in the early 1960's. This strategy served Korea well in a period of continuous growth, but has also made Korean industry vulnerable in a time of international recession. Korea's industrial plans in recent years have, therefore, been aimed at diversifying the economy and developing more integrated industries. Since 1970, over half of the total industrial investment has been allocated to chemical, petroleum and basic metal industries to ensure the supply of raw materials at stable prices. The establishment of Korea's first integrated steel plant at Pohang (currently being expanded from an annual output of 1 million to 2.6 million tons), the large shipyard at Ulsan, and the naptha cracking plant and related operations at the Ulsan oil refining complex, were major steps in the deepening of the industrial structure. The recent economic setbacks have necessitated a re-examination of the long-term development plans and the strategy underlying them. While the emphasis on increasing the share of heavy industry in exports and on enhancing the domestic content of manufactures remain generally valid, the program for heavy and chemical industries is being critically evaluated and reoriented to meet changing circumstances; some heavy industry projects have been deferred, if not altogether eliminated, especially those which are extremely capital- and energy-intensive. As pointed out earlier, the manufacturing sector is expected to play a crucial role in providing employment opportunities during the Fourth Five-Year Plan as the expected growth in the labor force of 3.1% is to be off-set mainly by a 7.4% growth in manufacturing employment (or half of the total growth in employment). The heavy emphasis in the Government's Fourth Five-Year Plan on a high growth rate of GNP and labor intensive manufacturing exports is, therefore, very sound and makes the provision of sufficient financial resources to the light manufactured goods industries even more important.

15. Notwithstanding the scaling down of Korea's original plans to expand the very capital intensive heavy and chemical industry sector it is apparent that the restructuring and expansion of Korea's industrial sector will require a heavy outlay of capital. The Government has therefore embarked on a major effort to mobilize the funds required by increasing domestic savings. Apart from the Government's concentrated efforts to bring inflation rates down and thereby strengthen the confidence of the public in the financial system, the first specific measure taken by the Government was the introduction, in April 1976, of the new wage-earners savings scheme. Under this scheme persons with incomes of ₩ 250,000 monthly or less can save up to 30% of their monthly incomes subject to a maximum of ₩ 50,000 in a special 3-5 year loan deposit in the Citizens National Bank or securities savings plan administered by selected securities brokerage firms. Through interest subsidies the effective yield for savers is between 25% and 27% p.a. and thus should provide strong incentives for savers. Another measure taken was the general increase, on August 2, 1976, of the interest rate structure, particularly the general increase in deposit rates (see para 25). Other measures have not yet been specified but probably would include a forced savings scheme under a Welfare Pension Plan and a Whole Life Insurance Scheme. The major channel which the Government set up in 1973 to direct the flow from the various savings institutions to the heavy and chemical industries is the National Investment Fund (NIF) which by 1981 is expected to channel, via the banking system, about three-fourths of total investment needs to major industries.

### III. THE FINANCIAL SECTOR

16. Institutional Set-up. The financial sector of Korea consists of the Bank of Korea, Deposit Money Banks, non-monetary financial institutions and a Securities Exchange. The Bank of Korea performs regular central banking functions, including the supervision of commercial banks. Deposit Money Banks are either commercial banks or specialized banks. Commercial banks are those receiving their funds mainly through deposits from the public. They can make all kinds of loans; however, they have traditionally concentrated on short-term lending. Recently they have increased their long-term lending business, and roll-over of short-term loans is also common. Four of the five nationwide commercial banks are fully controlled by the Government which under the Korean law automatically receives majority rights if its holding in a nationwide bank is 10% or more. The fifth bank is controlled by the semi-official Korean Traders Association. All commercial banks are subject to control and supervision by the Bank of Korea. Specialized Banks in contrast are directly controlled by the Ministry of Finance. They were all established under a Special Banking Act and are subject to only a few specific Articles of the Bank of Korea Act and General Banking Act. Specialized Banks, as their name implies, were founded for particular purposes or sectors (such as small-scale industry financing, agricultural financing) and they receive Government funds as part of their financial resources in addition to resources raised otherwise. At the end of 1973 specialized banks accounted for about one-half of total assets of all banking institutions and 60% of the total number of branch offices.

17. There are five nationwide commercial banks, ten banks with localized operations, nine branches and four representative offices of foreign banks and the Korea Trust Bank, which together have 495 branches/offices around the country (all these fall under the term "commercial banks"). Specialized Banks include the Korea Development Bank, the Korea Exchange Bank, which in 1967 was established mainly to relieve the Bank of Korea of commercial foreign exchange business, the Medium Industry Bank which extends financial and technical assistance to small and medium scale industries, the Citizens National Bank (mainly for mobilizing small savings and financing household loans and small enterprises), the Korea Housing Bank, the National Agricultural Cooperative Federation (NACF) and the Agriculture and Fisheries Development Corporations (AFDC).

18. Besides the above-mentioned banking institutions (the "Monetary System") there are several non-bank financing institutions, namely trust accounts of commercial banks, six life insurance companies, the postal savings system, the Korean Development Finance Corporation (KDFC) which specializes in providing medium- and long-term capital, the Korean Investment Corporation (KIC), primarily a broker for the offering and distribution of corporate securities, the Korea Investment and Finance Corporation (KIFC) which provides short-term finance to the private industrial sector, nine other short-term finance corporations and the Korea Capital Corporation, all of which deal in short-term money market instruments. In addition, there were 278 mutual savings and finance companies at the end of June 1974 and some 1,300 authorized credit unions. At the end of 1975, the Government had under preparation a new law which is to regulate the establishment of merchant banks. The main purpose of these merchant banks would be to raise medium- and long-term funds abroad and in the domestic market and to channel these to private enterprises. Under the law, merchant banks would be allowed to perform almost any kind of financial services (except accepting deposits) including guarantee of commercial papers, underwriting of securities, issuing of debentures, leasing and trust business. After this law is passed by the National Assembly, it is expected that a number of new institutions will be set up, including joint ventures with large overseas banking corporations.

19. As of December 31, 1975, total loans outstanding to the manufacturing sector by all banking institutions in Korea amounted to over W 1,900 billion (\$3.9 billion equivalent), three-fourths of which was for operating funds, mainly supplied by commercial banks. The largest supplier of equipment fund loans was KDB which, as of August 31, 1975, had an outstanding portfolio of Won 149 billion (about US\$307 million) or about 40% of total outstanding medium- and long-term credit by banking institutions to industry as of that date.

20. Some Specific Characteristics of the Financial System. Besides the division of the banking sector in commercial and specialized banks with a fairly distinctive division of labor there are several other characteristics of the Korean financial system which will be dealt with by the current economic mission and which are briefly summarized here. First the Government's

control of practically all operating aspects of Korean banking institutions is pervasive extending from the setting of interest rates, specifying of composition of assets portfolio and effectively pre-determining the overall allocation of loanable funds to even setting salary scales for bank employees, expenditure budgets and dividend payment policies, thus leaving very little room for independent policy making of the institutions themselves. The effectiveness of Government controls is supplemented by the dependence of the major institutions on Government funds and BOK's rediscount facilities. Second, the Government has developed a series of preferential schemes which were developed to direct flows of financial resources to priority sectors, lower the cost to preferred users or to increase returns to a target savings segment. Such schemes, most of which are essentially schemes to preempt available resources from various institutions, include the NIF, which in only two years has grown to the most important source of funds for the heavy and chemical industries, the various export promotion schemes, MIB-credit guarantee scheme, the wage-earners savings scheme (see para. 15), etc. The Government's restrictive influence coupled with a seemingly long tradition of centralization of activities has often resulted in operating conditions that are not competitive in many respects and sometimes inefficient. Profitability of banks has been modest despite fairly large spreads, and the Ministry of Finance and the Bank of Korea have recently announced that a program to rationalize the financial market would be established. Finally, there exists an unregulated or "curb" market which constitutes, particularly for small and medium sized firms, a sometimes important source of working capital funds and for the savers, participating in it, a highly favorable investment with rates roughly between 3 and 4% per month.

21. Capital Market. Some characteristics of the development of the Korean Stock Market over the last six years are shown in the following table:

	No. of Listed Companies	No. of Shareholders (in '000)	No. of Listed Stocks (in million)	Capital of Listed Stocks (₩ billion)	Composite Year End Stock Price Index
1970	48	76.3	159.0	134.3	n.a.
1971	50	81.9	170.2	141.4	100.0
1972	66	103.3	209.8	174.3	227.0
1973	104	200.0	305.1	351.6	311.8
1974	128	199.6	487.6	381.3	297.0
1975	189	290.7	825.0	673.4	396.3

The Korea Stock Market was moribund for many years but showed signs of life in 1972. Before then the yields on stock were unattractive as both commercial banks and the "curb market" paid high interest rates. The market was also thin because closely held companies were reluctant to go public. With the economic boom that got under way from about mid-1972 and with additional measures the public showed growing interest in the stock market. The curb market was severely checked as a result of August 3, 1972 measures and with decreasing interest rates at commercial banks, yields on stocks became attractive. In addition, the overall investment climate became very favourable after August 1972 and the campaign for more stock listings and for companies to go public intensified. The result was a great increase in stock exchange activity in the second half of 1972 and in 1973. In 1974 trading activities on the exchange slowed down considerably, due to the gloomy business outlook though stock listings continued to rise reaching almost 500 million at the end of 1974.

22. With the general improvement of the business climate, particularly the turn around in the export outlook, trading picked up again around mid 1975 and for the year the sales volume almost doubled. The Government continued to give strong incentives for companies to go public, in some instances even designating companies to open up, and during 1975 the number of listed companies rose to 189 from 128 in 1974. At the same time the number of shareholders rose by 46% to 291,000 at year end and the number of listed stocks reached 825 million having grown by 69% during 1975. Also listed on the stock exchange at the end of 1975 were 92 issues of corporate bonds and 227 issued of government bonds and bonds by state run enterprises. Yields of bonds are about 21%-23% while stocks earned around 13%. However, including capital gains, stocks have had an average yield of about 47% in 1975. Over the years the ownership structure has broadened as between 1970 and 1975 the share of owners with less than 1,000 shares doubled. Still this group accounts for only 5% of all shares although it is made up of 83% of all share owners. At the same time the role of the Government as a major shareholder on the Exchange was further reduced in recent years, its share dropping from 63% in 1966 to 39% in 1970 and 14% at the end of 1975. The Banks' share in the market also fell from 15% in 1970 to 8% in 1975. On the other hand individual ownership rose from 35% to 55% over the same period.

23. One reason for the fast rise in operations of the Stock Exchange-daily average sales volumes traded during 1975 were over 1 million compared to only 170,000 in 1971 - was the improvement of the market system itself. Among others the call market was replaced by a continuous auction market, two investment trust companies were established, market operations were automatized and the information system greatly improved. Despite the very impressive growth of the Stock Exchange several weaknesses remain. One of the more important problems lies in existing laws which specify that new equity issues have to be at par irrespective of the market prices of the stocks. Profitable companies are thus unable to take advantage of high price earnings ratios while companies whose shares are traded below



par obtain higher prices than is warranted. The Government is presently studying the pricing system of new shares issues and is likely to take steps into the right direction as it has recently done with the relaxing of the rigid yield structure for bond issues.

24. Interest Rates. The Government of Korea through the Monetary Board determines interest rate ceilings on deposits and loans which apply to all banking institutions. Specialized financial institutions such as KDFC or the short term finance companies are not legally bound; however, in practice they, too, have to follow government policies. The development of Korea's interest rate structure has, between 1968 and 1973, seen a continuous reduction in both deposit and lending rates. The lowering of the rates coincided, in general, with the Government's gradual success in bringing inflation down until late 1973 when the inflation rate jumped up again. <sup>1/</sup> With the emergence of the oil crisis and the general worldwide inflation, Korea's price structure was particularly hard-hit because of its high foreign trade dependence. The yearly average wholesale price index increased from 7.6% for the period 1966-1970 to 15.5% for 1970-1975, as increases of 42% and 26% were recorded in 1974 and 1975 respectively. While the Government selectively increased interest rates at the end of 1974, raising time deposits for over three months (12%) and over six months (13.2%) to 15% and preferential rates for loans from the NIF and IRF from 9% and 8% respectively to 12%, it did not raise interest rates in general because it felt that enterprises were already under great pressure through the general economic difficulties and because it hoped to succeed in bringing inflation under control.

25. Improvements observed in the first half of 1976 - the wholesale price index rose by only 9.2% on an annual basis - suggest that inflation could be brought down to an expected rate of 10% in 1976 and slightly below that level in the following years. Despite this record the Government revised the interest rate structure as of August 2, 1976 with two main objectives in mind: a) to improve interest incomes for savers and b) to introduce some explicit differentiation for risk and maturity in the rates of interest charged by the banking sector. Interest rates on time deposits have been raised by 1.2 to 2.4 percentage points, depending on maturity with one year time deposits earning 16.2% and 3 months deposits 15.0%. Interest rates under the Wage Earners' Savings Scheme, already attractive before August 2, 1976, have been further raised, with deposits with 5 years maturity earning 28.2%. The lending rates of commercial banks have been raised by 1.5 to 3.5 percentage points, depending on the financial status of the borrower and the maturity of the loan. In place of a uniform interest rate of 15.5%, banks now charge 17% on loans for up to 3 years, 18% on loans for 3 to 8 years and 19% on loans for over 8 years maturity. Lending rates are lower by 1 percent for prime enterprises, to be selected after an

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<sup>1/</sup> Inflation rates between May 1972 and November 1973, when the impact of the oil crisis could first be felt, grew at only 7.1% p.a.

evaluation of the financial status. Government regulations explicitly state that the "standard for medium and small enterprises shall be less complex and stringent than the one applicable to large enterprises." The effects of these changes in the interest rate structure are likely to be beneficial. The increase in deposit rates relative to prevailing interest rates on the curb market and on financial instruments in the short-term money market should improve the mobilization of deposits by the banking system. This is a key element in the program for improved resource mobilization in the forthcoming Fourth Five-Year Plan period (1977-1981). By introducing differentiation by risk and maturity, the structure of lending rates has been rationalized.

26. As to other deposit rates, rates of short-term finance companies vary between 11% and 18%, Government bonds effectively yield between 18% and 21%, and dividend yields on the market value of common stock averaged 13% in 1975 with capital gains during that year averaging around 30%. Besides the general lending rates of commercial banks (17% to 19% 1/) preferential rates are granted for various sectors or types of loans such as loans for exports (8%), equipment loans for the machine industry production (13% to 15% 1/) and loans made from proceeds of the NIF (13% to 14% 1/). Rates on the curb market could be as high as 45 to 50% p.a. Rates on foreign exchange loans made by KDB, MIB and KDFC are usually at 10% to 11% with the exchange risk 2/ borne by the borrower. General loans of KDB in domestic currency but funded from foreign commercial borrowings carry a rate of 12% with the foreign exchange risk also passed on to the sub-borrower, through a value maintenance clause.

27. In evaluating the structure of the lending rates Korean financial institution charge, due consideration has to be given to the fact that there exist distinctly two groups of lending rates: preferential rates, and general rates. Preferential rates, as mentioned above, are given to various priority sectors and constitute a part of the Government's incentives package. In the period 1971-1975, such loans accounted for over 40% of all loans by Deposit Money Banks and KDB. general lending rates are charged for all other loans and presently are at 17 to 19 percent. However, through various practices which have developed under the past conditions of limited capital supply, effective costs to the borrowers are much higher: commercial banks collect interest quarterly in advance from non-prime customer; for prime companies interest is collected monthly in advance. Compensating balances are, in effect, established by implicit understandings between banks and borrowers that the latter would maintain a predetermined level of demand deposits. Both these measures add about 5% to the effective cost to

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1/ Depending on maturity.

2/ The foreign exchange risk against the US\$ averaged 6.7% p.a. over the last 10 years.

the borrower. Finally the most stringent requirement is the opening of installment savings accounts which are used both as collateral and sinking funds and which can bring the effective cost of the loan up to 35% p.a. Thus, while one may argue that a large number of loans receives preferential interest rates, a remark which questions the basic incentives policy of the Government, it appears that the real level of interest rates for general loans, allowing for a 10% inflation rate, has been highly positive.

KOREA

KOREA DEVELOPMENT BANK

Board of Executive Directors as of March 31, 1976

1. Mr. Woun Gie Kim,  
Governor  
Appointed Governor of KDB in August, 1972.  
Career spent mainly in Ministry of Finance.  
Last Position: Vice Minister in the Ministry  
of Finance. Age: 52
2. Mr. Choon Taik Chung  
Appointed Deputy Governor of KDB in May 1976.  
Career spent mainly in Ministry of Finance.  
Last Position: Deputy Director, Office of  
Supply. Age: 43
3. Mr. Ki-Yung Chung  
Joined KDB in 1942 and was promoted as Director  
of a department in 1967 and appointed as Executive  
Director in 1970. Age: 52
4. Mr. Eung Suk Park  
Joined KDB in 1953 and was promoted as Director  
of a department in 1968. Appointed as Executive  
Director in 1971. Age: 52
5. Mr. Wan Soo Han  
Joined KDB in 1953 and was promoted as Director  
of a department in 1968. Appointed as Executive  
Director in 1971. Age: 53
6. Mr. Joon Park  
Joined KDB in 1942 and was promoted as Director  
of a department in 1967. Appointed as Executive  
Director in 1974. Age: 53
7. Mr. Duk Hyong Park  
Joined KDB in 1942 and was promoted as Director  
of a department in 1969. Appointed as Executive  
Director in 1975. Age: 53
8. Mr. Yong-Ki Kim  
Joined KDB in 1946 and was promoted as Director  
of a department in 1969. Appointed as Executive  
Director in 1975. Age: 55
9. Mr. Seh Whan Lee  
Joined KDB in 1954 and was promoted as Director of  
a department in 1968. Appointed as Executive  
Director in 1975. Age: 52.

## KOREA

## KOREA DEVELOPMENT BANK

## Staffing Position by Departments

	As of December 31, 1974			As of March 31, 1976		
	Professional <sup>1/</sup>	Non-Professional	Total	Professional <sup>1/</sup>	Non-Professional	Total
<b>A. Head Office</b>						
(i) <u>Support Departments:</u>						
Technical Services	44	47	91	37	40	77
Business Analysis	23	37	60	20	30	50
Research	30	64	94	32	54	86
Foreign Capital	14	16	30	15	22	37
International	15	32	47	18	31	49
Subtotal support staff	126	196	322	122	177	299
(ii) <u>Operation Departments:</u>						
Loan Department I	26	48	74	24	41	65
Loan Department II	17	22	39	15	23	38
Foreign Loan	18	29	47	19	27	46
Foreign Guarantee	20	31	51	20	32	52
Share Holding	50	23	73	35	22	57
Special Loan	52	25	77	48	27	75
Subtotal operation staff	190	178	368	161	172	333
(iii) <u>Planning &amp; Control Departments:</u>						
Planning	16	23	39	9	13	22
Business Control	16	34	50	14	23	37
Securities	19	30	49	18	28	46
Special Credit Control	13	20	33	10	18	28
Audit	22	8	30	30	12	42
Operation Development	-	-	-	15	27	52
Subtotal planning staff	86	115	201	96	131	227
(iv) <u>Administration Departments:</u>						
Personnel	39	43	82	43	43	86
General Services	23	224	247	21	222	243
Security Control	14	43	57	14	40	54
Subtotal Administration Staff	76	310	386	78	305	383
(v) <u>Secretariat</u>	11	23	34	10	22	32
(vi) <u>Temporary Staff</u>	2	84	86	3	88	91
Subtotal Head Office	491	906	1,397	470	895	1,365
<b>B. Branches</b>						
Inchon Branch	9	27	36	5	29	34
Cheongju Branch	5	16	21	5	18	23
Daejeon Branch	7	23	30	7	19	26
Sam Cheog Branch	5	18	23	6	21	27
Jeonju Branch	4	18	22	5	19	24
Gwangju Branch	7	25	32	9	27	36
Daegu Branch	7	32	39	10	32	42
Busan Branch	19	39	58	22	41	63
Ulsan Branch	6	18	24	6	19	25
Temporary Staff	-	26	26	-	22	22
Subtotal Branches	69	242	311	75	247	322
<b>C. Representative Offices</b>						
London	3	-	3	3	-	3
New York	4	-	4	4	-	4
Tokyo	3	-	3	3	-	3
Kuwait	-	-	-	1	-	1
Subtotal Repres. Offices	10	-	10	11	-	11
Total KDB	570	1,148	1,718	556	1,142	1,698

<sup>1/</sup> Professional being defined as including and above deputy manager level.

KOREA

KOREA DEVELOPMENT BANK

Policy Statement<sup>1/</sup>

Economic Role of KDB

1. The KDB shall assist in the economic development of Korea in conformity with its purposes as stated in the Korea Development Bank Act (KDB Act) enacted 30 December 1953, as amended, its By-Laws enacted 16 February 1954, as amended, and the other regulations governing its operations.

Operations

2. The KDB will carry out its operations in accordance with sound management and banking principles and practices. It shall endeavour to specialize in extending capital funds to such industries as are designated by the Government's economic plans or decrees as priority industries as well as other major basic industries which form the sub-structure of the economy. KDB may also make equity investments, provide working capital loans and render managerial and technical assistance to its Borrowers when the need arises. KDB will also extend guarantees on behalf of client enterprises. KDB, however, will not compete with other financial institutions in lending and administering industrial funds to assist major industries.

Project Selection

3. It will finance enterprises which are soundly managed and which appear, on careful economic, financial and engineering investigation to be viable. Following sound banking practices, the projects will be analyzed taking the following factors into consideration before making a commitment of financial assistance: (a) national economic benefits; (b) technical feasibility; (c) financial soundness and profitability; (d) marketability and (e) quality of management.

Criteria for Selection of Borrowers

4. In its operations, preference will be given to the following major industries:

- (a) Generation, transmission and supply of electricity;
- (b) Coal-mining;
- (c) Ship-building;
- (d) Iron and steel manufacturing;

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<sup>1/</sup> Approved as a condition of effectiveness of Loan No. 1095-KO by KDB's Board of Executive Directors on April 4, 1975.

- (e) Electronics;
- (f) Export industries, designated by the Government to produce export commodities;
- (g) Import-substitution industries and industries producing raw materials necessary for export and import-substitution;
- (h) Indigenous industries and labor intensive industries; and
- (i) Such other industries as may be designated by the Government's economic plans or decrees as priority industries.

Qualifications for Eligible Borrowers

5. Eligible borrowers for KDB financing must meet the following qualifications:

- (a) Borrowers must be financially sound;
- (b) Borrowers must possess management and technical capacity for implementing the projects being financed;
- (c) Borrowers should not have defaulted on any of their outstanding obligations to the KDB.

Maximum Investment and Assistance

- 6. (a) KDB shall not subscribe to and/or underwrite stocks (including investment certificates) if the paid-up amount of the stocks so held by KDB will exceed KDB's own paid-up capital;
- (b) KDB shall not normally make equity investments in any single enterprise in excess of either;
  - (i) fifteen percent (15%) of the total unimpaired paid-up capital, surplus, and free reserves of KDB; or
  - (ii) fifty percent (50%) of the paid-up capital of the enterprise;

- (c) KDB shall not normally extend financial assistance to any single enterprise which exceeds either of the following ceilings:
  - (i) twenty-five percent (25%) of KDB's total unimpaired paid-up capital, surplus and free reserves;
  - (ii) sixty-five percent (65%) of the total assets of the enterprise.

#### Foreign Exchange Risk

7. As a general policy, KDB shall cover itself adequately against foreign exchange risks in the conduct of its operations. However, in using "revolving funds" generated in the case of some foreign borrowings, KDB may assume the exchange risk temporarily. Also in using some funds provided under the Industrial Rationalization Fund Scheme, KDB may be exposed to the exchange risk. To cover the risk in the latter case, KDB will make provision amounting to 1.5% of such funds outstanding from time to time. Exchange losses exceeding the provision made by KDB, will be reimbursed by the Government.

#### Security Arrangements

- 8. (a) In accordance with normal business practices, KDB will obtain adequate security for its loans and guarantees. In extending a loan to an enterprise, KDB shall require such enterprise to provide security the value of which shall be not less than 125% of the amount of the loan. In the case of guarantees covered by a Government counter-guarantee the value of security shall be not less than the amount guaranteed, and in all other cases of guarantees, shall be not less than 120% of the principal amount covered under such guarantees.
- (b) KDB may waive any of the foregoing requirements in cases where the credit or the guarantee is extended in favor of those enterprises enumerated in paragraph 2, Article 10 of the Operating Manuals of KDB as of the date of this Policy Statement, provided, however, that in such cases KDB will endeavor to secure a guarantee or counter-guarantee from the Government or from a suitable bank or banks to cover the credit or guarantee granted.



### Technical Assistance

9. KDB will endeavor to provide its sub-borrowers with the necessary technical services including assistance for upgrading production efficiency and solving complicated technical difficulties. It will observe the operation of its sub-borrowers and will, whenever necessary, promptly make available to them constructive and remedial advice on the operation of the project. When considered necessary, KDB will also dispatch its own staff to the project companies.

### Management and Organization

10. To build and strengthen its own management and staff as well as to assist clients in the formulation and execution of their projects, KDB will maintain an effective organization and an adequate staff, including financial and economic analysis, engineering, accountancy, marketing and legal services.

### Share-Holding Fund

11. KDB shall administer the Share-holding Administration Fund (the Fund) pursuant to the provisions of the KDB Share-holding Act (Act No. 2128, enacted 4 August 1969) as a separate and distinct account in KDB's official books, the Fund will be treated as segregated from the other transactions and resources of KDB in accordance with the provisions of said Act.

### Financial Policies

12. KDB shall conduct its operations according to the provisions of the KDB Act. It shall endeavor to match the maturity of its liabilities with those of its assets. It will continually review the charges it levies for the financial assistance it provides to ensure that it receives an adequate "spread" to cover all its expenses including provisions for doubtful loans and investments, and to enable it to build reserves as required legally and as considered necessary by the management.

## KOREA

## KOREA DEVELOPMENT BANK

Summary of Loan Operations, 1971-1975  
(Won in Million)

	1971		1972		1973		1974		1975	
	No. 1/	Amount	No. 1/	Amount	No. 1/	Amount	No. 1/	Amount	No. 1/	Amount
<b>Approvals</b>										
Domestic currency capital loans	N.A.	31,883	N.A.	118,961	N.A.	84,362	N.A.	90,031	N.A.	144,228
Domestic currency working capital loans	N.A.	15,233	N.A.	24,054	N.A.	24,222	N.A.	22,039	N.A.	38,099
Total Domestic Currency	N.A.	47,116	N.A.	143,015	N.A.	108,584	N.A.	112,070	N.A.	182,327
Foreign currency loans	N.A.	13,897	N.A.	13,000	N.A.	10,856	N.A.	24,576	N.A.	21,853
<b>Total Approvals</b>	N.A.	61,013	N.A.	156,015	N.A.	119,440	N.A.	136,646	N.A.	204,180
<b>Commitments</b>										
Domestic currency capital loans	327	31,883	649	116,629	379	76,461	452	100,702	331	144,009
Domestic currency working capital loans	379	15,233	574	24,054	684	18,018	713	28,243	477	38,099
Total Domestic Currency	706	47,116	1,223	140,683	1,063	94,479	1,165	128,945	808	182,108
Foreign currency loans	26	13,236	12	13,350	41	10,599	58	24,255	32	21,000
<b>Total Commitments</b>	732	60,352	1,235	154,033	1,104	105,078	1,223	153,200	840	203,108
<b>Disbursements</b>										
Domestic currency capital loans	-	31,883	-	116,629	-	76,461	-	100,702	-	144,009
Domestic currency working capital loans	-	15,233	-	24,054	-	18,018	-	28,243	-	38,099
Total Domestic Currency <sup>2/</sup>	-	47,116	-	140,683	-	94,479	-	128,945	-	182,108
Foreign currency loans	-	1,892	-	4,794	-	9,202	-	15,535	-	20,533
<b>Total Disbursements</b>	-	49,008	-	145,477	-	103,681	-	144,480	-	202,641
<b>Repayments</b>										
Domestic currency capital loans	-	9,127	-	34,300	-	9,812	-	26,169	-	18,073
Domestic currency working capital loans	-	11,635	-	28,765	-	13,097	-	8,726	-	28,871
Total Domestic Currency	-	20,762	-	63,065 <sup>3/</sup>	-	22,909	-	34,895	-	46,944
Foreign currency loans <sup>4/</sup>	-	(283)	-	773	-	1,435	-	2,362	-	3,570
<b>Total Repayments</b>	-	20,479	-	63,838	-	24,344	-	37,257	-	50,514
<b>Outstanding</b>										
Domestic currency capital loans	1,037	116,956	1,238	199,285	1,342	265,934	1,401	340,467	1,551	466,403
Domestic currency working capital loans	508	33,479	366	28,768	372	33,689	390	53,206	494	62,434
Total Domestic Currency	1,545	150,435	1,604	228,053	1,714	299,623	1,791	393,673	2,045	528,837
Foreign currency loans	201	7,059	206	11,080	257	18,847	279	32,020	371	48,983
<b>Total Outstanding</b>	1,746	157,494	1,810	239,133	1,971	318,470	2,070	425,693	2,416	577,820

1/ Number of loans

2/ According to the standard banking practice in Korea, KDB credits its sub-borrowers' domestic currency loan accounts immediately after making a commitment. Consequently domestic currency commitments are equal to disbursements in all the years. The amounts not drawn down by the sub-borrowers from their respective loan accounts are shown under 'Credit Control Account' - a current liability item. The outstanding balances under Credit Control Accounts as of the end of 1971 through 1975 were as follows:

Year	1971	1972	1973	1974	1975
Amt. (in million Won)	4,721	2,539	3,719	4,189	3,739

3/ Includes repayment of loans (W25.77 billion) under the overall scheme of economic reforms introduced by the Government in August, 1972.

4/ Includes adjustments in loan amounts on account of exchange rate fluctuations.

**KOREA**  
**KOREA DEVELOPMENT BANK**

Analysis of Loans Committed 1973-1975 and Outstanding as of December 31, 1975

-----Commitments-----												-----Outstanding as of (December 31, 1975-----												
1973				1974				1975				Capital Loans				Working Capital Loans				Total Loans Outstanding				
No.	%	Amount	%	No.	%	Amount	%	No.	%	Amount	%	No. of Companies	%	Amount	%	No. of Companies	%	Amount	%	No.	%	Amount	%	
I. Type of Assistance																								
Domestic currency	1,063	96.3	94,479	89.9	1,165	95.3	128,945	84.2	808	96.2	182,108	89.7	312	71.2	466,403	90.5	115	100.0	62,434	100	2,045	84.6	528,837	91.5
Foreign currency	41	3.7	10,599	10.1	58	4.7	24,255	15.8	32	3.8	21,000	10.3	126	28.8	48,983	9.5	-	-	-	-	371	15.4	48,983	8.5
<b>Total</b>	<b>1,104</b>	<b>100.0</b>	<b>105,078</b>	<b>100.0</b>	<b>1,223</b>	<b>100.0</b>	<b>153,200</b>	<b>100.0</b>	<b>840</b>	<b>100.0</b>	<b>203,108</b>	<b>100.0</b>	<b>438</b>	<b>100.0</b>	<b>515,386</b>	<b>100.0</b>	<b>115</b>	<b>100.0</b>	<b>62,434</b>	<b>60</b>	<b>2,416</b>	<b>100.0</b>	<b>577,820</b>	<b>100.0</b>
II. Ownership																								
Private sector	988	89.5	47,065	44.8	1,079	86.2	75,443	49.2	627	74.6	85,796	42.2	405	92.5	173,808	33.7	105	91.3	44,246	70.9	1,902	78.7	218,074	37.7
Public sector	116	10.5	58,013	55.2	144	11.8	77,757	50.8	213	25.4	117,312	57.8	33	7.5	341,488	66.3	10	8.7	18,188	29.1	514	21.3	359,746	62.3
(of which companies under SAF) <sup>2/</sup>	(5)		(2,738)		(3)		(1,900)		(17)		(10,418)		n.a.				n.a.				(28)		(15,685)	
<b>Total</b>	<b>1,104</b>	<b>100.0</b>	<b>105,078</b>	<b>100.0</b>	<b>1,223</b>	<b>100.0</b>	<b>153,200</b>	<b>100.0</b>	<b>840</b>	<b>100.0</b>	<b>203,108</b>	<b>100.0</b>	<b>438</b>	<b>100.0</b>	<b>515,386</b>	<b>100.0</b>	<b>115</b>	<b>100.0</b>	<b>62,434</b>	<b>100.0</b>	<b>2,416</b>	<b>100.0</b>	<b>577,820</b>	<b>100.0</b>
III. Nature of Project																								
New	121	11.0	34,961	33.3	134	11.0	47,487	31.0	153	18.2	98,285	48.4	75	17.1	69,924	13.6	-	-	-	-	673	27.9	69,924	12.1
Expansion	283	25.6	50,483	48.0	360	29.4	75,717	49.4	175	20.8	62,428	30.7	290	66.2	143,761	27.9	-	-	-	-	1,173	48.5	143,761	24.9
Modernization, replacement	5	0.4	292	0.3	6	0.5	167	0.1	8	1.0	432	0.2	14	3.2	202,352	39.2	-	-	-	-	19	0.8	202,352	35.0
Working capital	684	62.0	18,018	17.1	713	58.3	28,243	18.4	477	56.8	38,099	18.8	-	-	-	-	115	100.0	62,434	100.0	466	19.3	62,434	10.8
Other	11	1.0	1,324	1.3	10	0.8	1,586	1.1	27	3.2	3,884	1.9	59	13.5	99,349	19.3	-	-	-	-	85	3.5	99,349	17.2
<b>Total</b>	<b>1,104</b>	<b>100.0</b>	<b>105,078</b>	<b>100.0</b>	<b>1,223</b>	<b>100.0</b>	<b>153,200</b>	<b>100.0</b>	<b>840</b>	<b>100.0</b>	<b>203,108</b>	<b>100.0</b>	<b>438</b>	<b>100.0</b>	<b>515,386</b>	<b>100.0</b>	<b>115</b>	<b>100.0</b>	<b>62,434</b>	<b>100.0</b>	<b>2,416</b>	<b>100.0</b>	<b>577,820</b>	<b>100.0</b>
IV. Geographical Distribution																								
Seoul City	232	21.0	36,987	35.2	259	21.2	50,626	33.0	124	14.8	63,879	31.4	134	30.7	171,256	33.3	29	25.2	19,811	31.8	651	26.9	191,067	33.1
Kyunggi Province	129	11.7	15,657	14.9	174	14.2	21,737	14.2	115	13.7	28,638	14.1	68	15.5	63,730	12.4	26	22.6	19,424	31.1	444	18.4	83,154	14.4
South Chung-cheong Province	24	2.2	525	0.5	42	3.4	919	0.6	26	3.1	1,422	0.7	10	2.3	9,819	1.9	4	3.5	837	1.3	62	2.6	10,656	1.8
North Chung-cheong Province	20	1.8	3,573	3.4	66	5.4	7,354	4.8	72	8.6	11,374	5.6	11	2.5	26,806	5.2	4	3.5	3,557	5.7	140	5.8	30,363	5.3
Kang-won Province	26	2.4	3,152	3.0	53	4.3	5,056	3.3	58	6.9	6,906	3.4	14	3.2	25,980	5.0	5	4.3	671	1.1	123	5.1	26,651	4.6
South Jeon-ra Province	29	2.6	2,942	2.8	63	5.2	5,362	3.5	68	8.1	7,312	3.6	32	7.3	28,826	5.6	2	1.7	1,607	2.6	148	6.1	30,433	5.3
North Jeon-ra Province	17	1.5	1,576	1.5	40	3.3	1,226	0.8	48	5.7	1,828	0.9	12	2.7	6,789	1.3	5	4.3	325	0.5	57	2.3	7,114	1.2
South Kyung-sang Province	44	4.0	11,033	10.5	137	11.2	21,518	14.1	112	13.3	39,606	19.5	42	9.6	73,315	14.2	11	9.6	8,969	14.4	253	10.5	82,284	14.2
North Kyung-sang Province	94	8.5	13,765	13.1	148	12.1	19,456	12.7	94	11.2	20,311	10.0	32	7.3	58,396	11.3	8	7.0	956	1.5	200	8.3	59,352	10.3
Busan City	489	44.3	15,868	15.1	236	19.3	19,763	12.9	121	14.4	21,715	10.7	79	18.0	48,810	9.5	20	17.4	6,128	9.8	324	13.4	54,938	9.5
Che-ju Island	-	-	-	-	5	0.4	183	0.1	2	0.2	117	0.1	4	0.9	1,659	0.3	1	0.9	149	0.2	14	0.6	1,808	0.3
<b>Total</b>	<b>1,104</b>	<b>100.0</b>	<b>105,078</b>	<b>100.0</b>	<b>1,223</b>	<b>100.0</b>	<b>153,200</b>	<b>100.0</b>	<b>840</b>	<b>100.0</b>	<b>203,108</b>	<b>100.0</b>	<b>438</b>	<b>100.0</b>	<b>515,386</b>	<b>100.0</b>	<b>115</b>	<b>100.0</b>	<b>62,434</b>	<b>100.0</b>	<b>2,416</b>	<b>100.0</b>	<b>577,820</b>	<b>100.0</b>

1/ Number of loans.

2/ Shareholding Administration Fund.

EAP Projects Department  
June 15, 1976

KOREA  
KOREA DEVELOPMENT BANK

Distribution By Size And Duration Of Loans Committed - 1973-1975 And Outstanding As Of December 31, 1975  
(Won in Million)

(-----Commitments-----) (-----Outstanding As Of December 31, 1975-----)

		1973				1974				1975				Capital Loans				Working Capital Loans				Total Loans Outstanding									
		No.	1/	%	Amount	%	No.	1/	%	Amount	%	No.	1/	%	Amount	%	No.	1/	%	Amount	%	No.	1/	%	Amount	%					
I. SIZE (Won) <sup>2/</sup>																															
Less than 8,000,000		503		45.5	1,008	1.0	505		41.3	1,084	0.7	181		21.5	409	0.2	391		20.3	1,185	0.2	38		7.7	155	0.2	429		17.8	1,340	0.2
8,000,001---20,000,000		134		12.1	1,683	1.6	205		16.8	2,243	1.5	168		20.0	2,487	1.2	363		18.9	7,887	1.5	32		6.5	582	0.9	395		16.3	8,469	1.5
20,000,001---40,000,000		152		13.8	3,972	3.8	108		8.8	2,327	1.5	92		11.0	2,880	1.4	230		12.0	4,728	0.9	124		25.1	3,679	5.9	354		14.7	8,407	1.5
40,000,001---120,000,000		160		14.5	12,336	11.8	192		15.7	10,967	7.2	142		16.9	12,100	6.0	365		19.0	24,499	4.8	115		23.3	7,327	11.7	480		19.8	31,826	5.5
120,000,001---200,000,000		53		4.8	8,861	8.4	70		5.7	10,192	6.7	73		8.7	10,148	5.0	148		7.7	14,976	2.9	84		17.0	11,809	18.9	232		9.6	26,785	4.6
200,000,001---400,000,000		68		6.2	19,343	18.4	67		5.5	18,064	11.8	63		7.5	15,328	7.5	138		7.2	34,647	6.7	85		17.2	24,012	38.6	223		9.2	58,659	10.1
400,000,001---800,000,000		18		1.6	25,689	24.4	32		2.6	27,611	18.0	49		5.8	25,588	12.6	137		7.1	55,106	10.7	13		2.6	8,298	13.3	150		6.2	63,404	11.0
800,000,001-2,000,000,000		13		1.2	15,026	14.3	34		2.8	39,707	25.9	52		6.2	64,275	31.7	100		5.2	126,980	24.6	3		0.6	6,572	10.5	103		4.3	133,552	23.1
2,000,000,001-and above		3		0.3	17,160	16.3	10		0.8	41,005	26.7	20		2.4	69,893	34.4	50		2.6	245,378	47.7	-		-	-	-	50		2.1	245,378	42.5
Total		1,104		100.0	105,078	100.0	1,223		100.0	153,200	100.0	840		100.0	203,108	100.0	1,922		100.0	515,386	100.0	494		100.0	62,434	100.0	2,416		100.0	577,820	100.0
II. DURATION																															
1. Capital Loans																															
Up to 1 year		13		3.1	13,563	15.6	-		-	-	-	-		-	-	-	-		-	-	-	-		-	-	-	-	-	-	-	-
1 - 2 years		12		2.9	474	0.5	31		6.1	850	0.7	-		-	-	-	77		4.0	20,358	4.0	-		-	-	-	77		3.2	20,358	3.5
2 - 4 years		28		6.7	3,676	4.2	40		7.8	8,403	6.7	23		6.3	1,621	1.0	135		7.0	18,709	3.6	-		-	-	-	135		5.6	18,709	3.2
4 - 6 years		29		6.9	1,570	1.8	84		16.5	15,229	12.2	74		20.4	8,890	5.4	278		14.5	35,098	6.8	-		-	-	-	278		11.5	35,098	6.1
6 - 8 years		146		34.8	18,672	21.4	143		28.0	35,419	28.4	73		20.1	31,138	18.9	538		28.0	116,529	22.6	-		-	-	-	538		22.3	116,529	20.2
8 - 10 years		126		30.0	28,277	32.6	103		20.2	26,235	21.0	133		36.7	90,298	54.7	538		28.0	197,960	38.4	-		-	-	-	538		22.3	197,960	34.2
10 - 15 years		36		8.5	3,749	4.3	61		12.0	17,530	14.0	25		6.9	3,462	2.1	181		9.4	33,809	6.6	-		-	-	-	181		7.5	33,809	5.9
Over 15 years		30		7.1	17,079	19.6	48		9.4	21,291	17.0	35		9.6	29,600	17.9	175		9.1	92,923	18.0	-		-	-	-	175		7.2	92,923	16.1
Sub-Total		420		100.0	87,060	100.0	510		100.0	124,957	100.0	363		100.0	165,009	100.0	1,922		100.0	515,386	100.0	-		-	-	-	1,922		79.6	515,386	89.2
2. Working Capital Loans																															
Up to 6 months		357		52.2	619	3.4	378		53.0	4,250	15.0	257		53.9	5,840	15.3	-		-	-	-	261		52.8	7,867	12.6	261		10.7	7,867	1.4
6 months - 1 year		98		14.3	1,832	10.2	100		14.0	9,403	33.3	65		13.6	5,962	16.6	-		-	-	-	69		14.0	12,674	20.3	69		2.9	12,674	2.2
1 year - 2 years		88		12.9	2,146	11.9	92		12.9	2,870	10.2	81		17.0	6,182	16.2	-		-	-	-	69		14.0	8,242	13.2	69		2.9	8,242	1.4
Over 2 years		141		20.6	13,421	74.5	143		20.1	11,720	41.5	74		15.5	20,115	52.9	-		-	-	-	95		19.2	33,651	53.9	95		3.9	33,651	5.8
Sub-Total		684		100.0	18,018	100.0	713		100.0	28,243	100.0	477		100.0	38,099	100.0	-		-	-	-	494		100.0	62,434	100.0	494		20.4	62,434	10.8
3. TOTAL																															
		1,104		-	105,078	-	1,223		-	153,200	-	840		-	203,108	-	1,922		-	515,386	-	494		-	62,434	-	2,416		100.0	577,820	100.0

1/ Number of loans  
2/ Capital and working capital loans

## KOREA

## KOREA DEVELOPMENT BANK

Sectoral Distribution of Loans Committed - 1973-1975 and Outstanding as of December 31, 1975  
(Won in Million)

-----Commitments-----												-----Outstanding as of December 31, 1975-----												
1973				1974				1975				Capital Loans				Working Capital Loans				Total Loans Outstanding				
No.	%	Amount	%	No.	%	Amount	%	No.	%	Amount	%	No. of Companies	%	Amount	%	No. of Companies	%	Amount	%	No.	%	Amount	%	
A. MANUFACTURING INDUSTRIES																								
a. Consumer Goods Industries																								
Food, beverage and tobacco	45	4.1	1,555	1.5	87	7.1	1,446	0.9	39	4.6	3,693	1.8	22	5.0	8,135	1.6	7	6.1	2,640	4.2	81	3.3	10,775	1.9
Textile, wearing apparel and leather	109	9.9	9,396	8.9	110	9.0	7,205	4.7	72	8.6	6,756	3.3	76	17.4	19,335	3.7	20	17.4	5,139	8.3	241	10.0	24,474	4.2
Printing and publishing	7	0.6	345	0.3	7	0.6	405	0.3	8	1.0	935	0.5	8	1.8	1,521	0.3	3	2.6	272	0.4	27	1.1	1,812	0.3
Sub-total	161	14.6	11,296	10.7	204	16.7	9,056	5.9	119	14.2	11,384	5.6	106	24.2	28,991	5.6	30	26.1	8,051	12.9	349	14.4	37,061	6.4
b. Intermediate Goods Industries																								
Wood and wood products	9	0.8	128	0.1	14	1.1	1,275	0.8	8	1.0	523	0.3	8	1.8	1,417	0.3	4	3.5	1,761	2.8	47	1.9	3,178	0.6
Paper and paper products	32	2.9	1,715	1.6	44	3.6	1,202	0.8	32	3.8	2,050	1.0	16	3.7	4,333	0.8	8	7.0	739	1.2	69	2.9	5,053	0.9
Chemicals, rubber and plastics	448	40.6	4,384	4.2	467	38.2	3,138	2.0	102	12.1	3,110	1.5	25	5.7	11,816	2.3	9	7.7	4,516	7.2	208	8.6	11,900	2.0
Petroleum and coal	15	1.4	2,842	2.7	30	2.5	9,304	6.1	45	5.3	13,886	68.0	6	1.4	18,853	3.6	2	1.7	2,286	3.7	95	3.9	25,571	4.4
Non-metallic mineral products	32	2.9	3,942	3.8	53	4.3	5,157	3.4	61	7.3	7,559	3.7	25	5.7	14,219	2.8	14	12.2	3,021	4.8	175	7.3	17,240	3.0
Sub-total	536	48.6	13,011	12.4	608	49.7	20,076	13.1	248	29.5	27,128	13.3	80	18.3	50,638	9.8	37	32.1	12,323	19.7	594	24.6	62,942	10.9
c. Capital Goods Industries																								
Basic metals	72	0.5	21,922	20.9	73	6.0	16,260	10.6	109	13.0	23,542	11.6	21	4.8	43,906	8.6	9	7.7	5,226	8.4	201	8.3	49,132	8.5
Metal products	63	5.7	4,689	4.5	51	4.2	14,867	9.7	28	3.3	4,696	2.3	11	2.5	8,335	1.6	6	5.3	470	0.8	92	3.8	15,856	2.7
Machinery (except electrical)	1	0.1	150	0.1	6	0.5	764	0.5	30	3.6	7,303	3.6	12	2.7	9,257	1.8	2	1.7	10,111	16.2	40	1.7	14,176	2.4
Electrical machinery	36	3.3	1,262	1.2	16	1.3	344	0.2	3	0.4	528	0.3	21	4.8	4,248	0.8	1	0.9	196	0.3	42	1.8	932	0.2
Transport equipment	35	3.2	4,404	4.2	68	5.5	12,372	8.1	104	12.3	9,344	4.6	13	3.0	25,310	5.0	5	4.4	6,304	10.1	259	10.7	33,267	5.8
Sub-total	207	18.7	32,427	30.9	214	17.5	44,607	29.1	274	32.6	45,413	22.4	78	17.8	91,056	17.3	23	20.0	22,307	35.8	634	26.3	113,363	19.6
d. Miscellaneous Mfg. Industries																								
	7	0.6	10	-	10	0.8	50	0.1	10	1.2	598	0.3	10	2.3	276	-	4	3.5	30	-	15	0.6	306	0.1
Total Mfg. Industries	911	82.5	56,744	54.0	1,036	84.7	73,789	48.2	651	77.5	84,523	41.6	274	62.6	170,961	33.2	94	81.7	42,711	68.4	1,592	65.9	213,672	37.0
B. NON-MANUFACTURING INDUSTRIES																								
Agriculture, forestry and fishery	-	-	-	-	1	0.1	427	0.3	7	0.8	912	0.5	2	0.5	694	0.1	1	0.9	913	1.5	12	0.5	1,607	0.3
Mining and quarrying	15	1.4	2,980	2.8	14	1.1	8,003	5.2	10	1.2	6,271	3.1	1	0.2	12,335	2.4	2	1.7	6,109	9.8	45	1.9	18,444	3.2
Electricity & waterworks	13	1.2	22,420	21.4	14	1.1	31,573	20.6	23	2.7	56,927	28.0	3	0.7	200,272	38.8	1	0.9	1,030	1.6	185	7.7	201,302	34.8
Construction	-	-	-	-	22	1.8	11,345	7.4	20	2.5	8,197	4.0	4	0.9	27,578	5.4	-	-	-	-	45	1.8	27,578	4.8
Transportation	30	2.7	6,599	6.3	34	2.8	18,844	12.3	33	3.9	35,782	17.6	105	23.9	73,992	14.4	5	4.3	3,262	5.2	232	9.6	77,254	13.4
Banking and insurance	113	10.2	14,590	13.9	78	6.4	7,656	5.0	74	8.8	9,235	4.6	18	4.1	24,119	4.7	10	8.8	8,288	13.3	227	9.4	32,406	5.6
Hotel and tourism	20	1.8	1,705	1.6	23	1.9	1,553	1.0	22	2.6	1,261	0.6	29	6.6	5,334	1.0	2	1.7	121	0.2	73	3.0	5,454	0.9
Other services	2	0.2	40	-	1	0.1	10	-	-	-	-	-	2	0.5	101	-	-	-	-	-	5	0.2	103	-
Total Non-Mfg. Industries	193	17.5	48,334	46.0	187	15.3	79,411	51.8	189	22.5	118,585	58.4	164	37.4	344,425	66.8	21	18.3	19,723	31.6	824	34.1	364,148	63.0
GRAND TOTAL	1,104	100.0	105,078	100.0	1,223	100.0	153,200	100.0	840	100.0	203,108	100.0	438	100.0	515,386	100.0	115	100.0	62,434	100.0	2,416	100.0	577,820	100.0

EAP Projects Department  
June 15, 1976

1/ Number of loans.

## KIMJA

## KOREA DEVELOPMENT BANK

Sub-Projects Approved or Under Consideration for Financing Under IBRD Loan 1095 NO. as of April 13, 1976

Name of Company		Type of Industry	Type of Project	Project Cost		KDB Financing		Rate of Return		Incremental		Incremental		Total Cost		Foreign	
				Local \$ '000	Foreign \$ '000	Total \$ '000	IBRD \$ '000	Financial (%)	Economic (%)	Export Sales \$ '000	Job Creation	Per Job \$ '000	Ownership	Assets Size of Sponsoring Co. \$ '000			
A. Approved by IBRD																	
1	Sam Ick Iine Company	Transportation	E	176	6,750	4,000	4,000	17.1	16.4	n.a.	39	177	-	5,909	-		
2	Kuk Je Shipping Company	Transportation	F	83	3,500	3,500	3,500	17.2	15.9	n.a.	39	93	-	7,200	-		
3	Korea Integrated Special Steel Co.	Basic Metal	E	14,553	20,599	5,861	3,884	15.9	26.3	30,017	568	59	-	29,472	-		
4	Samhae Trading Company	Others	F	1,776	528	528	528	-	-	-	27	20	-	3,025	-		
5	Samyang Shipping Company	Transportation	E	406	3,000	3,000	3,000	22.3	21.8	1,074	34	100	-	4,061	-		
6	Samhae Printing Company	Printing	E	1,137	165	165	165	-	-	-	8	21	-	3,452	-		
7	Samyang Wire Company	Rubber	E	19,266	4,000	4,000	4,000	30.1	46.3	8,194	336	69	-	40,841	-		
8	Korea Bearing Company	Machinery	E	1,404	378	378	378	-	-	-	52	34	-	7,808	-		
9	Tongil Industries Company	Machinery	E	1,045	606	606	606	-	-	1,183	186	92	-	2,613	-		
10	Samjin Aluminum Company	Others	E	1,908	390	390	390	-	-	-	36	11	-	3,298	-		
11	Sungshin Chemical Company	Non metallic Minerals	E	5,138	750	750	750	-	-	-	50	117	-	39,605	-		
12	Dongil Steel Company	Metal	E	3,704	750	750	750	-	-	2,332	56	80	-	4,324	-		
13	Hwang-A Shipping Company	Transportation	E	2,464	1,132	1,926	1,132	21.6	21.0	1,124	28	109	-	5,467	-		
14	Donggwe Shipping Company	Transportation	E	1,052	3,300	3,000	3,000	22.6	21.8	1,483	41	106	-	10,913	-		
15	Chunghwa Electric Ind. Co	Machinery	F	173	173	173	173	-	-	1,203	79	6	-	3,264	-		
16	Dong Yang Warner Company	Machinery	E	1,881	1,544	1,544	1,544	48.2	45.7	-	180	19	-	7,866	-		
17	Oriental Brewery Company	Others	E	18,776	6,437	2,307	2,307	13.6	25.6	1,772	309	82	-	42,395	-		
18	Gold Star Instrument & Electric Co	Metal	E	1,017	418	418	418	-	-	3,127	103	14	-	7,951	-		
19	Kangwon Industries Company	Metal	N	6,486	4,000	4,000	4,000	17.9	29.8	-	247	43	-	71,877	-		
20	Korea Integrated Special Steel Co	Basic Metal	E	23,002	14,560	1,996	1,996	17.9	45.5	-	1,071	35	-	54,847	-		
21	Bisan Steel Company	Metal	E	7,309	2,882	2,882	2,882	16.0	26.6	15,198	1,243	8	-	10,272	-		
22	Sam Iha Can Making Company	Metal	E	949	568	568	568	-	-	972	66	23	-	3,057	-		
23	Orient Precision Company	Machinery	E	324	277	277	277	-	-	1,610	928	8	-	10,272	-		
24	Korea Synthetic Rubber Company	Others	E	3,384	1,166	1,166	1,166	29.5	41.1	-	30	152	50.0	15,682	-		
25	Saangyoung Shipping Company	Transportation	E	333	4,100	4,000	4,000	19.8	17.3	7,706	31	143	-	20,541	-		
26	Gold Star Tele-Communication Co	Machinery	E	2,928	1,411	1,411	1,411	43.6	46.9	1,532	841	5	33.5	25,064	-		
27	Long Myung Industries Company	Machinery	N	2,851	2,208	2,029	2,029	30.4	35.6	-	460	11	-	15,498	-		
28	Gold Star Cable Company	Metal	E	18,612	5,625	4,000	4,000	19.8	30.5	20,476	303	80	29.1	34,176	-		
29	New Yang Shipping Company	Transportation	E	322	3,950	3,150	3,150	17.7	18.2	385	34	127	-	2,062	-		
30	Dong Yang Express Ferry Company	Transportation	N	821	2,700	2,700	2,700	27.9	15.4	255	101	35	-	343	-		
31	Cho Yang Shipping Company	Transportation	E	4,050	1,950	1,638	1,638	n.a.	n.a.	n.a.	68	88	-	38,910	-		
Sub Total				145,332	99,817	63,115	60,364 <sup>2</sup>			99,803	2,594	32					
Under Processing																	
1	Hong Won Paper Manufacturing Co	Others	E	3,220	530	530	530	-	-	-	14	268	15,495				
GRAND TOTAL				148,552	100,347	63,623	60,827 <sup>2</sup>			99,803	7,608	33					
1/ E Existing Project																	
2 Total adds up to more than \$60 million since figures include cancellation																	

EAP Project, Department  
September 10, 1976

## KOREA

## KOREA DEVELOPMENT BANK

Summary of Investment Operations, 1971 - 1975  
(in million Won)

	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
<b>I. Equity Investment</b>					
Total Investment at the Beginning of the Year	<u>46,723</u>	<u>48,514</u>	<u>63,262</u>	<u>58,642</u>	<u>65,883</u>
New Investments during the Year:					
Direct Purchases	2,972	5,860	2,649	10,671	14,460
Loan Conversions	2,989	17,534	-	-	4,880
Transfers from Government	<u>1,506</u>	<u>-</u>	<u>349</u>	<u>-</u>	<u>50,011</u>
Total New Investments	<u>7,467</u>	<u>23,394</u>	<u>2,998</u>	<u>10,671</u>	<u>69,351</u>
Investments Sold during the Year	<u>5,676</u>	<u>8,646</u>	<u>7,618</u>	<u>3,430</u>	<u>3,641</u>
Net Investment at the End of the Year:					
Direct Purchases	16,696	22,547	25,196	43,107	46,814
Loan Conversions	11,291	21,038	18,611	17,353	17,414
Transfers from Government	<u>20,527</u>	<u>19,677</u>	<u>14,835</u>	<u>5,423</u>	<u>67,365</u>
Total at the End of the Year	<u>48,514</u>	<u>63,262</u>	<u>58,642</u>	<u>65,883</u>	<u>131,593</u>
<b>II. Bonds and Debentures</b>					
Total Investment at the Beginning of the Year	<u>8,971</u>	<u>9,114</u>	<u>8,830</u>	<u>8,864</u>	<u>10,076</u>
New Investments during the Year	741	410	920	1,684	4,836
Investments Sold during the Year	598	694	886	472	1,388
Net Investment at the End of the Year	<u>9,114</u>	<u>8,830</u>	<u>8,864</u>	<u>10,076</u>	<u>13,524</u>
<b>III. Total Investment (Equity Shareholding, Bonds &amp; Debentures)</b>					
Total Investment at the Beginning of the Year	<u>55,694</u>	<u>57,628</u>	<u>72,092</u>	<u>67,506</u>	<u>75,959</u>
New Investments during the Year	8,208	23,804	3,918	12,355	74,187
Investments Sold during the Year	6,274	9,340	8,504	3,902	5,029
Net Investment at the End of the Year	<u>57,628</u>	<u>72,092</u>	<u>67,506</u>	<u>75,959</u>	<u>145,117</u>
<b>IV. Income from Investment Portfolio</b>					
Dividend Income	750	883	2,356	2,339	2,707
(as % of the average equity investments)	1.6	1.6	3.9	3.8	2.7
Capital Gains Realized	-	257	(2,571)	1,320	1,567
(as % of cost of equity investments sold)	-	3.0	(33.7)	38.5	43.0
Dividend Income Plus Capital Gains	750	1,140	(215)	3,659	4,274
(as % of average equity investments)	1.6	2.0	(0.4)	5.9	4.3
Interest Income from Bonds and Debentures	766	841	829	781	986
(as % of average bond and debenture investments)	8.5	8.7	8.6	7.7	7.7
Total Income from Total Investment Portfolio	1,516	1,981	614	4,440	5,260
(as % of total average investment portfolio)	2.7	3.0	0.9	6.2	4.8

## KOREA

## KOREA DEVELOPMENT BANK

Analysis of Equity Investments 1973-1975, and Outstanding as of December 31, 1975  
(Won in Million)

	1973				1974				1975				Outstanding as of December 31, 1975			
	No. <sup>1/</sup>	%	Amount	%	No. <sup>1/</sup>	%	Amount	%	No. <sup>1/</sup>	%	Amount	%	No. <sup>2/</sup>	%	Amount	%
I Type of Assistance																
Domestic currency	21	100.0	2,998	100.0	20	100.0	10,671	100.0	29	100.0	69,351	100.0	33	100.0	131,593	100.0
Foreign currency	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	21	100.0	2,998	100.0	20	100.0	10,671	100.0	29	100.0	69,351	100.0	33	100.0	131,593	100.0
II. Ownership																
Private sector	3	14.3	554	18.5	1	5.0	153	1.4	7	24.1	7,588	10.9	12	36.4	21,900	16.6
Public sector <sup>3/</sup>	18	85.7	2,444	81.5	19	95.0	10,518	98.6	22	75.9	61,763	89.1	21	63.6	109,693	83.4
(of which companies under SAF) <sup>4/</sup>	(3)	(14.3)	(300)	(10)	(2)	(10.0)	(1,000)	(9.4)	(1)	(3.4)	(100)	(0.1)	(4)	(12.1)	(18,525)	(14.1)
Total	21	100.0	2,998	100.0	20	100.0	10,671	100.0	29	100.0	69,351	100.0	33	100.0	131,593	100.0
III A Manufacturing																
Consumer Goods Industries																
Food, beverage and tobacco	-	-	-	-	-	-	-	-	-	-	-	-	1	3.0	183	0.1
Textile, wearing apparel & leather	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Printing and publishing	-	-	-	-	-	-	-	-	-	-	-	-	2	6.1	175	0.1
Sub-total	-	-	-	-	-	-	-	-	-	-	-	-	3	9.1	358	0.2
Intermediate Goods Industries																
Wood and wood products	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Paper and paper products	1	4.8	22	0.7	-	-	-	-	-	-	-	-	-	-	-	-
Chemicals, rubber and plastics	-	-	-	-	-	-	-	-	5	17.4	9,376	13.5	2	6.1	18,282	13.9
Petroleum and coal	-	-	-	-	-	-	-	-	1	3.4	5,200	7.5	1	3.0	11,025	8.4
Non-metallic mineral products	1	4.8	130	4.4	-	-	-	-	1	3.4	3,923	5.7	-	-	-	-
Sub-total	2	9.6	152	5.1	-	-	-	-	7	24.2	18,499	26.7	3	9.1	29,307	22.3
Capital Goods Industries																
Basic metals	11	52.4	1,575	52.5	14	70.0	9,100	85.3	2	6.9	130	0.2	5	15.2	39,056	29.7
Metal products	-	-	-	-	-	-	-	-	2	6.9	2,187	3.1	-	-	-	-
Machinery (except electrical)	1	4.8	214	7.2	1	5.0	153	1.4	2	6.9	4,880	7.0	1	3.0	5,890	4.5
Electrical machinery	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transport equipment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sub-total	12	57.2	1,789	59.7	15	75.0	9,253	86.7	6	20.7	7,197	10.3	6	18.2	44,946	34.2
Miscellaneous Industries	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total manufacturing industries	14	66.8	1,941	64.8	15	75.0	9,253	86.7	13	44.9	25,696	37.0	12	36.4	74,611	56.7
B Non-Manufacturing Industries																
Agriculture, forestry and fishery	1	4.7	324	10.8	-	-	-	-	-	-	-	-	-	-	-	-
Mining and quarrying	-	-	-	-	-	-	-	-	2	6.9	2,700	3.9	2	6.1	7,603	5.8
Electricity and waterworks	2	9.5	269	9.0	2	10.0	418	3.9	2	6.9	7,264	10.5	1	3.0	7,547	5.7
Construction	-	-	-	-	-	-	-	-	5	17.2	18,100	26.1	4	12.1	19,320	14.7
Transportation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Banking and insurance	3	14.3	292	9.7	-	-	-	-	5	17.2	15,391	22.2	6	18.2	3,515	2.7
Hotel and tourism	-	-	-	-	-	-	-	-	-	-	-	-	1	3.0	500	0.4
Other services	1	4.7	172	5.7	3	15.0	1,000	9.4	2	6.9	200	0.3	7	21.2	18,497	14.0
Total Non-Manufacturing Industries	7	33.2	1,057	35.2	5	25.0	1,418	13.3	16	55.1	43,655	63.0	21	63.6	56,982	43.3
GRAND TOTAL	21	100.0	2,998	100.0	20	100.0	10,671	100.0	29	100.0	69,351	100.0	33	100.0	131,593	100.0
IV Nature of Project																
New	-	-	-	-	-	-	-	-	1	3.4	100	0.1	3	9.1	1,475	1.1
Existing	21	100.0	2,998	-	20	100.0	10,671	-	28	96.6	69,251	99.9	30	90.9	130,158	98.9
Total	21	100.0	2,998	-	20	100.0	10,671	-	29	100.0	69,351	100.0	33	100.0	131,593	100.0
V Geographical Distribution																
Seoul City	9	42.8	1,123	37.5	5	25.0	1,518	14.2	16	55.2	38,553	55.7	19	57.7	43,654	33.2
Kyunggi Province	1	4.8	214	7.1	1	5.0	153	1.4	3	10.3	5,980	8.6	3	9.1	15,889	12.1
South Chung-cheong Province	-	-	-	-	-	-	-	-	2	6.9	9,300	13.4	1	3.0	9,302	7.0
North Chung-cheong Province	-	-	-	-	-	-	-	-	4	13.8	9,376	13.5	-	-	-	-
Kang-won Province	-	-	-	-	-	-	-	-	-	-	-	-	2	6.1	7,603	5.8
South Jeon-ra Province	-	-	-	-	-	-	-	-	-	-	-	-	1	3.0	15,026	11.4
North Jeon-ra Province	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
South Kyung-sang Province	11	52.4	1,661	55.4	-	-	-	-	2	6.9	130	0.1	5	15.1	15,615	11.9
North Kyung-sang Province	-	-	-	-	14	70.0	9,000	84.4	2	6.9	6,012	8.7	1	3.0	24,323	18.5
Busan City	-	-	-	-	-	-	-	-	-	-	-	-	1	3.0	181	0.1
Che-ju Island	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	21	100.0	2,998	100.0	20	100.0	10,671	100.0	29	100.0	69,351	100.0	33	100.0	131,593	100.0
VI Size of Assistance (Won)																
Less than 8,000,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8,000,001----20,000,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
20,000,001----40,000,000	2	9.5	44	1.5	-	-	-	-	1	3.4	30	-	2	6.1	52	-
40,000,001----120,000,000	12	57.1	1,009	33.6	2	10.0	237	2.2	6	20.7	456	0.7	4	12.1	258	0.2
120,000,001----200,000,000	3	14.3	498	16.6	1	5.0	153	1.4	1	3.4	150	0.2	5	15.1	886	0.7
200,000,001----400,000,000	3	14.3	811	27.1	7	35.0	1,281	12.1	2	6.9	547	0.8	1	3.0	250	0.2
400,000,001----800,000,000	1	4.8	636	21.2	3	15.0	1,700	15.9	3	10.3	1,982	2.9	5	15.1	3,154	2.4
800,000,001----2,000,000,000	-	-	-	-	7	35.0	7,300	68.4	4	13.8	6,376	9.2	2	6.1	3,120	2.4
2,000,000,001--and above	-	-	-	-	-	-	-	-	12	41.5	59,810	86.2	14	42.5	123,873	94.1
Total	21	100.0	2,998	100.0	20	100.0	10,671	100.0	29	100.0	69,351	100.0	33	100.0	131,593	100.0

1/ Number of operations

2/ Number of companies

3/ Companies in which KDB and/or government holdings exceed 50% of the share capital

4/ Share Administration Fund

Korea Development Bank

April 17, 1976



KOREA DEVELOPMENT BANKThe Readjustment CorporationOperations

1. Establishment. Establishment of the Readjustment Corporation (RAC) as a juridical entity separate from the Korea Development Bank is provided under Article 53-III of the Korea Development Bank Act. Following enactment of the Readjustment Corporation Decree, RAC was set up in April 1962 to (i) protect and collect claims taken over or transferred to it by KDB and (ii) manage and dispose of properties taken over or transferred to it by KDB (or such properties acquired by KDB as a result of foreclosure). The share capital of RAC was wholly contributed by KDB by transfer of claims and properties valued at W 565 million, title to which was taken over by RAC as of the date of its establishment. No increase in RAC's sharecapital has taken place since its establishment.
2. Scope of operations. While originally limited to the settlement of accounts transferred by KDB, the scope of RAC's business was expanded by Presidential Decree in 1966 to cover overdue loans of other banking institutions as well. Title to properties and collateral is transferred in full by KDB while claims of other banking institutions are merely entrusted with RAC which acts as an agent for settlement and collection of overdues. Transfers by KDB over the last five years amounted to W 20.7 billion against W 61.2 billion for other banking institutions.
3. Organization and staffing. RAC is managed by a President and three Directors who are appointed by the Minister of Finance upon recommendation by the Governor of KDB. RAC's President, Mr. Jae Il Kim, is a former Executive Director of the Korea Trust Bank. Mr. Yong Mock Cho is Director of the Transfer Operations Department in charge of settlements and collection on KDB claims; Mr. Ho Taik Hyun, Director of the Trust Collection Department in charge of collection of overdue loans for other banking institutions who also supervises the Property Disposal Department which disposes of foreclosed properties. Mr. Hang Suck Baik supervises 3 departments; General Services, Planning and Research, and Security Control. Two auditors are nominated by the Minister of Finance to control and audit the operations of RAC. In 1963 RAC opened a branch office in Busan to collect overdue loans in the Busan/Taegu area. This branch now has a staff of 21 persons. RAC currently has a total staff of 152 persons, 53 of which can be considered as professionals 1/ (only 3 of them are former employees of KDB).
4. Procedures. Voluntary repayments by debtors account for approximately 15% of settlements every year. In all other cases, court action is undertaken and the mortgaged properties are sold at a public auction by authority of the court. The opening price for bids is based on an independent appraisal by the Korea Appraisal Board (KAB). After bid-awarding by the court, the proceeds from the payment of the auctioned price are allocated to the creditors including RAC. RAC may participate directly in the biddings if (i) the offering price based on KAB's ap-

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1/ Defined as including and above Deputy Manager level.

praisal is lower than RAC's claims or (ii) the offering price is reduced by court to the level of RAC's claim. RAC thereby acquires ownership of the properties which are subsequently sold by its Property Disposal Department when a sale can be made at a reasonable price. Such sales are usually made on an average 4 to 5 years installment payment basis, with interest ranging from 0% to 15.5% on the unpaid balance.

5. Income. KDB's claims consist of the outstanding principal amount plus interest accrued to the date of transfer of the account to RAC. Thereafter accruing interest constitutes RAC's income. For overdue loans entrusted by other banking institutions RAC charges a fee fixed by agreement between RAC and the Bankers Association. Income also arises from the disposal of properties transferred by KDB for which RAC receives the title at the time of transfer. If proceeds received through foreclosure or disposal of properties are insufficient to cover outstanding claims, loans must be written off by KDB or the institution concerned. During the following 10 year period RAC is legally authorized to attempt to make further recoveries. RAC receives 10% commission on such collections. In terms of the KDB Act, RAC is exempt from income tax and the net profit is to be set aside as a reserve for possible losses. RAC's profitability has increased markedly over the last 3 years as compared to the 1970-72 period. However, accounts transferred or entrusted have decreased rapidly over the last 5 years (see table 1, attached) and RAC's income from KDB transfers has been substantially reduced in 1975 from its 1974 level. The summarized accounts of RAC for the years 1971 through 1975 appear in table 2 attached to this annex 1/.

6. Audit and supervision. RAC is not legally required to have its accounts audited by independent external auditors; the two internal auditors appointed by the Minister of Finance are in charge of the general audit of RAC's business operations. Financial statements are prepared yearly and submitted to the Ministry of Finance which also supervises the general operations of RAC. Moreover RAC must submit monthly reports on the progress of collections to the Superintendent of Banks.

#### RAC's Operations on Behalf of KDB

7. Performance. KDB's cumulative transfers of overdue loans to the end of 1975 amounted to W 28.2 billion; in addition, transferred properties amounted to W 445 million. RAC's performance in settling and collecting these overdues is summarized below.

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1/ Unaudited accounts based on Korean accounting standards for banking institutions, i. e. income is reported on an actual receipt basis and expenses on accrual basis thus understating income and retained earnings.

(in million Won)

	<u>Loans</u>	<u>Properties</u>
<u>Cumulative transfers to Dec. 31, 1975</u>	<u>28,244</u>	<u>445</u>
<u>Settlements:</u>		
a. Settled and collected	7,591	263
b. Settled and receivable	9,894	179
<u>Total settlements</u>	<u>17,485</u>	<u>442</u>
<u>Write-offs</u>	<u>6,155</u>	<u>-</u>
<u>Unsettled accounts</u>		
a. Principal	1,924 <sup>1/</sup>	3
b. Interest	2,680	-
<u>Total unsettled</u>	<u>4,604</u>	<u>3</u>

Overall, RAC's performance has been satisfactory; 63% of the accounts transferred by KDB had been settled by the end of 1975; write offs by KDB of unrecoverable claims represented 21% of cumulative transfers and unsettled accounts 16% only.

8. Transferred loans. Table 1 attached to this annex shows that in spite of the growth in KDB's loan portfolio, unsettled claims outstanding with RAC at the end of 1975 stood at W 4.6 billion or 31% of their 1972 level. A particularly high level of settlements and write offs was responsible for the sharp decrease in 1973 but marginal improvements were also registered in the last two years as the level of settlements exceeded that of new transfers. The W 4.6 billion outstanding at end 1975 represented RAC's claims over 46 companies <sup>2/</sup>. All these companies belonged to the private sector and showed a distribution among different sectors broadly in line with the distribution of KDB's loan portfolio. Against its claims, RAC held collateral on fixed assets valued at W 1.6 billion or 35% of its unsettled claims. However, past experience shows that RAC had done very well in collecting payments from personal guarantees or through the sale of properties acquired at auctions; RAC is confident that unsettled claims at end 1975 are fully recoverable. Consequently KDB's write offs in 1975 amounted to W 140 million only.

9. Guarantees. Unlike the transfer of loans, when overdue guarantees are transferred by KDB, RAC acts only as an agent and the accounts entrusted to RAC for recovery still appear in KDB's guarantee portfolio. As of December 31, 1975, out of a portfolio of 116 companies <sup>3/</sup>, guarantees to 4 companies had been entrusted to RAC for a total amount of W 481 million. Two accounts had already been settled and were being collected leaving an unsettled balance of W 242 million against which the value of collateral available exceeded W 1.3 billion.

<sup>1/</sup> Includes W 1,693 million of principal and W 231 million of recoverable expenses.

<sup>2/</sup> Which compares with 41 companies in 1973 and 44 in 1974 but with larger overdue amounts.

<sup>3/</sup> Amounting to W 1,480 billion.

KOREAKOREA DEVELOPMENT BANKSummarized Accounts<sup>1/</sup> of the Readjustment Corporation for the Years Ended December 31, 1971 through 1975A. Condensed Balance Sheets

	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
<u>Assets</u>					
Current Assets	679	898	904	1,124	2,210
Fixed Assets (Net)	15	14	27	40	75
Transferred Accounts <sup>2/</sup>	10,713	16,035	16,590	16,604	16,035
Entrusted Accounts <sup>3/</sup>	24,052	32,901	24,794	15,408	12,058
<u>Total Assets</u>	<u>35,459</u>	<u>49,848</u>	<u>42,315</u>	<u>33,181</u>	<u>30,378</u>
<u>Liabilities</u>					
Current Liabilities	389	907	2,900	1,671	1,810
Term Liabilities <sup>4/</sup>	21	381	276	1,999	2,873
Counterpart Accounts	34,192	47,636	38,069	28,309	24,343
Paid-in Capital	565	565	565	565	565
Surplus	292	359	505	637	787
<u>Total Liabilities &amp; Equity</u>	<u>35,459</u>	<u>49,848</u>	<u>42,315</u>	<u>33,181</u>	<u>30,378</u>

B. Condensed Income Statements

<u>Income</u>					
Interest on accounts transferred <sup>5/</sup>	122	300	414	423	260
Interest on deposits	184	99	87	216	322
Commissions earned <sup>6/</sup>	33	58	125	97	81
Profits from sales of properties	-	12	40	24	104
Other income	43	2	44	133	6
<u>Total Income</u>	<u>382</u>	<u>471</u>	<u>710</u>	<u>893</u>	<u>773</u>
<u>Expenses</u>					
Interest paid	-	-	-	68	-
Depreciation	6	6	5	3	5
General administrative expenses	314	344	365	495	599
Other expenses	23	54	193	196	19
<u>Total expenses</u>	<u>343</u>	<u>404</u>	<u>563</u>	<u>762</u>	<u>623</u>
<u>Net Profit</u>	<u>39</u>	<u>67</u>	<u>147</u>	<u>131</u>	<u>150</u>

<sup>1/</sup> Unaudited.<sup>2/</sup> Includes transferred loans, guarantees, receivables, foreclosed properties, (from KDB).<sup>3/</sup> Includes loans entrusted for collection, entrusted properties, receivables on disposal of entrusted properties, (by other banking institutions).<sup>4/</sup> Including borrowings from KDB.<sup>5/</sup> From KDB.<sup>6/</sup> From other banking institutions.

## KOREA

## KOREA DEVELOPMENT BANK

Claims of KDB and Other Banking Institutions Transferred to Readjustment Corporation, 1971-1975  
(Won in Million)

	<u>Unsettled Claims at beginning of the period</u>	<u>New During The Year</u>	<u>Net increase<sup>1/</sup> (decrease)</u>	<u>Settlements during the year</u>			<u>Write-Offs</u>	<u>Unsettled Claims at end of Period</u>
				<u>Collected</u>	<u>Uncollected</u>	<u>Total</u>		
<b>A. <u>Korea Development Bank</u></b>								
1971	5,047	10,806	(67)	539	769	1,308	-	14,478
1972	14,478	5,752	(505)	544	4,302	4,846	-	14,879
1973	14,879	2,603	(237)	920	4,114	5,034	5,672	6,539
1974	6,539	1,201	150	497	1,565	2,062	438	5,390
1975	5,390	390	45	256	825	1,081	140	4,604 <sup>2/</sup>
<b>B. <u>Other Institutions</u></b>								
1971	5,316	22,591	-	1,415	2,639	4,054	1,616	22,237
1972	22,237	18,449	-	1,892	4,716	6,608	4,220	29,858
1973	29,858	10,177	-	1,490	6,321	7,811	13,754	18,470
1974	18,470	4,448	-	219	5,432	5,651	8,580	8,687
1975	8,687	5,543	-	273	4,361	4,634	4,520	5,076

<sup>1/</sup> On account of exchange rate fluctuations.<sup>2/</sup> Consisting of W 1,924 million of principal and recoverable expenses and W 2,680 million of accrued interests reimbursable to KDB.EAP Projects Department  
June 15, 1976

KOREA DEVELOPMENT BANK

KOREA INDUSTRIAL LEASING COMPANY

Leasing Business in Korea

1. Legal Framework. In December 1973 the Government promulgated the "Law on Promotion of Leasing Industries" designed to encourage the development and growth of leasing in Korea. Under the law leasing companies have to obtain a license from the Ministry of Finance, which also is the supervising authority, and to have an authorized share capital of at least W 3 billion. Leasing companies are accorded some privileges including exceptions to other laws such as the Customs, Foreign Trade Transactions or Maritime Transportation Laws. For instance, equipment imported for lease by a leasing company receives the same preferential tariff concession under the customs law that apply to imported equipment used for the purposes described by the law. The law also specifies the interest to be charged on loans by indicating maximum spreads allowed to be added to fund raising costs. The maximum spreads allowed under the law have recently been increased and are presently as follows (previous rates in bracket):

domestic currency leases:	4%	(3%)
foreign currency leases:	5%	(3%)
subleases of imported equipment	5%	(maximum interest of 15.5%)

Leases can principally be written on full payout or partial pay-out basis. Because uncertainty existed as to whether the Korean Tax authorities might consider full pay-out leases as installment sales contracts, in fact, no full pay-out leases have been written in Korea since 1973 until recently, when the Ministry of Finance announced its decision explicitly allowing full pay-out leases. Hence in the future most leases written in Korea will likely be on that basis.

2. Present Set-Up. Leasing business was introduced into Korea in 1972 when KILC was established as a wholly owned subsidiary of KDB. In early 1975 two more leasing companies were established; Korea Development Leasing Company (KDLC) with KDFC (37%) and Oriental Leasing Company of Japan (35%) being the largest shareholders, and Whashin Tiger Leasing Company (WTLC), a joint venture between Whashin Industrial Company of Korea (51%) and Tiger Leasing Company of the USA (49%). According to industry sources it is unlikely that additional leasing companies will be established in the near future. Merchant banks on the other hand, which under the Merchant Banking Act are allowed to do leasing business are not expected to take part to any significant extent in leasing operations for some time to come since the main purpose of their establishment would be to raise foreign funds for onlending to private industrial enterprises. As of today no merchant bank has been formed.

3. The volume of contracts written by the Korean companies between 1973 and 1975 was as follows:

	<u>1973</u>	<u>1974</u>	<u>1975</u>
KILC	1,086	4,081	3,153
KDLC			663
WTLC			200
<u>TOTAL</u>	<u>1,086</u>	<u>4,081</u>	<u>4,016</u>

As shown above, KILC's contracts increased sharply in 1974, reflecting the strong demand for lease financing as recognition and understanding of lease financing by private enterprises gradually increased. In 1975, however, KILC's lease contracts fell, which was the result of shortage of financial resources at its disposal. (see para. 16). KDLC and WTLC accounted for 21% of total contracts written and their relative share in the market may increase in the future.

4. Advantages/Disadvantages of Leasing in Korea. There is a chronic shortage of medium and long-term capital in the private manufacturing sector in Korea, with enterprises already having high debt/equity ratios. Leasing broadens the pool of capital available by enabling the companies to get maximum leverage out of a limited equity base. Moreover leasing frees funds originally earmarked for fixed assets for working capital, where there is also a shortage. Furthermore since leasing companies do not usually require collateral for lease financing in contrast to banks, business firms whose property has already been pledged in full for security of existing bank loans are able to obtain additional capital goods. This may be vital especially to rapidly expanding medium-and small sized companies whose continuous growth is checked by their limited available collateral needed for obtaining additional bank loans. While well capitalized companies could get unsecured loans, these are seldom available for smaller companies. Leasing, therefore, could be particularly beneficial to the medium-and small segment of Korean manufacturing enterprises.

5. On the negative side, the cost of leasing is usually higher than the interest on regular loans. Also high initial depreciation allowances as well as investment tax credits cannot be availed as they do not apply to leased equipment. For the leasing companies, there exists the risk of unused lease items, after expiration of the lease, the sale of which may be uncertain.

6. Prospects of the Korean Leasing Industry. The outlook for the Korean leasing industry is favorable. As described in the previous paragraphs, leasing is an attractive form of financing for many Korean enterprises because of their already high debt/equity ratios and the often limited available collateral needed for obtaining additional bank loans. Moreover, there is a general supplier's market for any type of long-term finance in Korea. Marketing efforts of the leasing companies therefore are, and will probably continue to be, directed towards educating potential lessees rather than finding them. Another indicator of the

potential of the leasing market in Korea is given by a comparison with Japan where the share of lease financing in total investment is over four times the current level in Korea. Consequently, the factor which probably will be most restrictive to the growth of leasing in Korea is the leasing companies' fund raising capacity as is also documented by the decline in the volume of leases written in Korea during 1975 despite a long pipeline of applications at the leasing companies. Since borrowing on the domestic market will continue to be very limited due to the unavailability and/or high cost of long term funds, the future growth of the Korean leasing industry therefore will largely depend on the successful resource mobilization abroad which the parent companies will be able to arrange for the three leasing companies over the next few years.

#### KILC - Institutional Set-Up.

7. Articles of Incorporation, Capital and Ownership. KILC was incorporated in December 1972, with an initial authorized share capital of W 300 million, which was fully paid in by its single shareholder, KDB. According to the Articles of Incorporation KILC shall make long term leases of a broad variety of facilities, machines and tools, shall extend guarantees relevant to long term lease for such items and perform any related business. KILC started its operations in March 1973 and in December of that year formally received its license when the Korea Leasing Promotion Law was promulgated. KDB's authorized capital has been increased in three stages to the present W 3 billion of which 50% has been paid in, all by KDB.

8. Objectives and Policies. KILC's operations are governed by its Articles of Incorporation, its Operating Manual<sup>1/</sup> and its Guidelines for Leasing. According to the Guidelines, set up by KILC's Board, KILC will give priority to fostering small and medium scale enterprises and such projects that will have great impact on employment creation. Industrywise it will concentrate on leasing to export oriented, import substitution and health industries, industries for the development of natural resources and for the production of essential goods and other industries encouraged by the Government (machinery, computer, cargo vessel, etc.). "Finance prudence" limits are contained in KILC's Operating Manuals. These limits are: a) unpaid leases plus borrowings should not exceed 20 times KILC's equity, and b) uncollected lease rentals to one company should not exceed (i) W 1 billion, (ii) 10 times the equity of the lessee and (iii) 50% of KILC's equity.

9. Organization, Management and Staff. KILC is managed by a Board of Directors, including its President and three Executive Directors. It has four departments, Planning, General Affairs and two Operations Departments. KILC has no branches but plans to open one in Busan in 1977. KILC has a staff of 42, 13 of whom can be considered professional. Mr. Lee, the President, is an experienced, well regarded banker, who made his career in KDB which he left as Executive Director at the end of 1974 to join KILC. Mr. Lee provides able leadership to his company. The present members of the Board and their background is given in Appendix 2.

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<sup>1/</sup> Some of the more important articles are given in Appendix 1.



10. Procedures. KIILC's appraisal criteria are laid down in its Guidelines for Leasing. The appraisals usually cover all important aspects of a project with main emphasis being placed on the financial strength and debt servicing capacity of the client. For the purpose of its credit evaluation, KIILC has developed a Credit Evaluation Table which divides the clients into four groups depending on an elaborate points system whereby the applicant is awarded between one and five points for fifteen different criteria such as current ratio, debt/equity ratio, profitability ratio (client versus standard competitors ratio), capacity utilization, export performance, managerial and technical capabilities and prospects. If an applicant falls into one of the two lower groups KIILC turns down the application or requires security from the applicant. KIILC also makes a check of the leasing item, whether it is acceptable for leasing, whether purchase conditions are acceptable and, in particular, whether the machinery could also be procured locally.

#### Operations

11. Since its inception in 1973, until the end of 1975, KIILC has written 75 lease contracts totalling W 8.3 billion and guaranteed three lease contracts for imported equipment for US\$ 2.6 million. As mentioned in paragraph 3, KIILC expanded fastest in 1974 when its resource position was relatively strong and demand brisk while in 1975 business was curtailed due to the severe resource constraints (see paragraph 16). For 59 of KIILC's lease contracts, equipment had been delivered by December 31, 1975 accounting for W 7.0 billion (84% of contract amounts written) of total commitments. The largest share of contracts, 42 of the 59, has gone to the manufacturing sector (W 4.2 billion) including cement, can production, textiles and printing. The other industries in KIILC's portfolio are: transportation (mainly shipping - 5 contracts for W 2.4 billion), hospitals (9 contracts for W 421 million) and mining (3 contracts for W 21 million). The average size of a contract was W 119 million, ranging from W 890 million for a vessel to W 4 million for office equipment. Lease periods varied between 3 to 10 years with the majority between six and eight years. Of the total equipment delivered, 28% was locally procured. In the past, KIILC has signed lease contracts with both large and small enterprises with the largest being a synthetic textiles manufacturer with total fixed assets of US\$ 51.5 million and the smallest a bolt and nuts manufacturing shop (US\$ 37,000). The three lease guarantees were all signed for used ship leases abroad. The guarantees were given for periods between 5 and 8 years and KIILC collected guarantee commissions of about 5% of the guaranteed values.

#### Financial Position and Profitability

12. Lease Accounting. There are two methods by which a leasing company may prepare financial reports. One is to treat the leased equipment as a fixed asset, which is generally called the "Operating Method". Under this method, a lessor records on its balance sheet the leased equipment at cost and then depreciates the equipment over the estimated useful life. To determine operating results, lease fees received during a fiscal year are measured against the year's depreciation costs. The other method is the "Financing Methods", under which the lessor carries the lease receivables as its assets and deducts unearned income from the receivables or treats the unearned lease income as a liability. The unearned lease income,

representing the excess of the lease receivables over the cost of the leased equipment excluding its estimated residual value, is recognized as revenue over the lease period. There is no notion of depreciation in the Financing Method.

13. The Operating Method is much more conservative as the depreciation cost during the first two or three years accounts for a high proportion of the level payments by the lessee thereby reducing the recognized profit during the initial years. KIIC prepares financial statements following both methods: the Operating Method is required by Korean tax regulation while the Financing Method is used for managerial purposes.

14. Financial Position. Appendices 3 and 4 summarize KIIC's financial statements for the past three years, giving also a comparison of the two accounting methods for the year 1975. Based on the operating method KIIC had total assets of W 8.0 billion as of December 31, 1975, 92% of which were in the form of leased equipment and other fixed assets. Deferred accounts of W 176 million represent capitalized foreign exchange losses which KIIC suffered during the 1974 devaluation of the Won and which will be written off over a five year period. KIIC will not suffer such foreign exchange losses in the future since it now borrows from KDB only in domestic currency without value maintenance clause.

15. To finance its assets KIIC borrowed from KDB W 6.1 billion and used its equity which, including accumulated losses for the first three years of operations of W 250 million<sup>1/</sup> stood at W 1.3 billion. Liabilities include also W 532 million of long term deposits representing deposits equivalent to 3 months lease rentals which the lessees, as is usual in Korea, have to maintain with the lessor. KIIC's debt<sup>2/</sup>/equity ratio stood at 6.4 to 1, well within its statutory limit of 20 to 1 and its current ratio at the end of 1975 was 5.3 to 1.

16. Profitability. During the three years of operations, KIIC suffered a total loss of W 250 million. The annual loss dropped from W 153 million in 1974 to W 81 million in 1975 or from 5.5% of average total assets to 1.3% of average total assets. Using the Financing Method of accounting KIIC made a small profit of W 43 million in 1975 and for its three years of operations just about broke even with a small total cumulative loss of W 3 million. More than half of KIIC's loss in 1975 was due to the extraordinary expense of W 44 million for the foreign exchange loss suffered in 1974 (see para. 13). During 1975 KIIC's average borrowing cost was 7.6%, its average lease income (excluding average depreciation charge of 9.5%) was 10.3%. Administrative cost was 5.1% of average total assets, close to half of it for personnel expenses, compared to 5.3% in 1974 and 7.7% in 1973. Administrative expenses as a percentage of assets should decline in the future as the assets base is enlarged. Up to now KIIC has not made any provisions since it has not shown profits so far and because there has been no default.

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<sup>1/</sup> Using the financing method KIIC is close to breaking even, having accumulated losses of W 2.6 million.

<sup>2/</sup> Includes guarantees of W 1.2 billion.

17. Audit. KIILC's accounts are audited by internal auditors as is usual in Korea. No external audit of its books has been performed to date. During negotiations agreement should be reached that KIILC will appoint, for its future annual audits, external auditors, acceptable to the Bank.

18. Resources. As of December 31, 1975 KIILC's long-term resource-position was as follows:

	<u>Won in million</u>	<u>%</u>
Paid in capital	1,500	
Accumulated losses	250	
Total equity	1,250	15.9
Long-term loans from KDB	6,068	77.3
Deposits	532	6.8
Total resources	7,850	100.0
Less disbursements	7,287	
Available for disbursements	563	
Less undisbursed commitments	1,033	
Shortfall in resources	(470)	

As can be seen KIILC's resource position was very tight towards the end of 1975 which was mainly due to KDB's own severe resource shortage. Borrowings from other sources was more or less out of the question because funds of the right maturities were either not available domestically, or only at a very high cost, and because KIILC has not established an operational record that would have allowed it to raise funds from commercial sources abroad. The resource shortfall on a commitment basis of W 470 million will be met through further borrowings from KDB which for 1976 has already committed W 2.5 billion of its own resources to KIILC.

19. KIILC has basically relied on two sources of finance: KDB and deposits of its clients. KDB accounted for 93% of total resources at the end of 1975 which it has contributed in the form of equity (W 1,250 million net of losses or 15.9% of total resources) and long term loans (W 6,068 million or 77.3% of total resources) which it has extended to KIILC since 1973 at an interest rate of 12% p.a. with a maturity of 12 years including a 4-year grace period. Deposits of its clients amounted to W 532 million (6.8% of resources) at the end of 1975. As is common in Korea, lessees have to deposit with lessors an amount corresponding to three months lease fees at the time of lease contract. Such deposits do not carry any interest. KIILC does not carry the exchange risk on loans it has made from past borrowings from KDB by including value maintenance clauses in its own leases and new loans from KDB are made on a straight Won basis. On the proposed Bank loan through KDB, KIILC would also pass on the exchange risk to the lessees.

KILC's Prospects

20. Operational Forecast. In line with the general prospects of the leasing industry in Korea, KILC's outlook is favorable. Based on its borrowing program over the next three years, KILC projects the following business volume (in Won million or equivalent):

	Contract Amounts		
	In Domestic Currency	In Foreign Currency	Total
1975 (actual)	3,153	-	3,153
1976	3,300	2,700	6,000
1977	3,300	3,900	7,200
1978	3,400	5,200	8,600

The almost doubling of lease contracts written in 1976 over 1975 is due to the depressed volume of business during 1975 when KILC was unable to raise additional resources. After 1976, the growth rate is conservatively projected at 20% p.a. again being dependent on resources availability rather than business opportunities.

21. Resources. To finance the leases, KILC hopes to obtain, between 1976 and 1978, loans from KDB (₩ 4.4 billion) and from sources abroad (₩ 10.1 billion equivalent), namely the proposed Bank loan through KDB (US\$7.5 million) and foreign commercial sources (US\$13.4 million). KILC in fact plans to rely increasingly on such foreign commercial borrowings which it would make through the merchant bank KDB is about to establish. The remaining funds (₩ 7.3 billion) are expected to come from lease payments <sup>1/</sup> (₩ 5.8 billion), lessees deposits (₩ 1.4 billion) and a capital increase which is planned for 1977, when KDB hopes to open KILC to foreign investors.

22. Financial Projections. KILC's total assets are expected to increase over three times during the next three years, based on the rapid increase in its operations, and are estimated to amount to ₩ 24.8 billion at the end of 1978. At that time fixed assets for lease will account for 96% of total assets. Liabilities will increase from ₩ 6.7 billion at the end of 1975 to ₩ 21.8 billion at the end of 1978. Most of the liabilities will be in the form of borrowings from KDB (₩ 19.6 billion or 90%) and lessees' deposits (₩ 1.9 billion or 9%). As of December 31, 1978, KILC is expected to show, for the first time, retained earnings of ₩ 37 million which will bring total equity to ₩ 3,036 million, after the paid-in capital will have been doubled in 1977. KILC's debt<sup>2/</sup> /equity ratio will rise to 9.3 to 1 in 1978 and the current ratio will be above 4.4 to 1 at all times. KILC will make profits starting in 1976, rising from ₩ 63 million to ₩ 320 million over the projection period. KILC's overall spread is expected to remain constant while administrative expenses as percentage of total assets will decrease from 5.5% in 1975 to 1.6% in 1978 as the assets base in 1978 will have sharply increased. In 1978 KILC will begin paying taxes on its income and plans on paying out dividends equivalent to 50% of its net income after taxes. This dividend policy is thought to be necessary to attract private investors for the planned 1977 capital increase.

<sup>1/</sup> The loans from KDB have a much longer repayment period than KILC's average lease terms, and include a 4-year grace period. Therefore KILC will be able to relend, at least during the projected period, the major share of its collections.

<sup>2/</sup> Including guarantees and subleases.

KOREA DEVELOPMENT BANK

Important Articles of KIIC's Operating Manuals  
(As amended November 10, 1975)

Article 3 (Business)

The Company can engage itself in the following business:

1. Long-term lease of facilities, machinery, tools, and immovable assets and property-rights relevant thereto prescribed in Article 4 (including long-term release of the leased equipment).
2. Guarantee relevant to long-term lease.
3. Business annexed to the business of No. 1 and No. 2, approved by the Minister of Finance.

Article 4 (Specific Items)

(1) Items leased by the Company shall fall under one of the followings:

1. Equipment, machinery and instruments directly employed in manufacturing, mining, agriculture, fishery and facilities supplementary thereto.
2. Heavy equipment, aircraft, vehicles, ships and containers directly employed in construction, transportation and stevedoring.
3. Educational instruments, and equipment and machinery necessary for the research and development of scientific technique, and facilities supplementary thereto.
4. Equipment, machinery and instruments directly employed for anti-pollution and facilities supplementary thereto.
5. Medical equipment and instruments.
6. Electronic equipment, cash register and communication equipment unconnected with public electrical communication facilities.

(2) In case the Company imports items prescribed in No. 1 and No. 6 inclusive of Paragraph 1 from abroad for the purpose of leasing, the brand-newest model shall be selected unless the unavoidable circumstances exist.

Article 5 (Alteration of Operating Manuals)

The approval of the Minister of Finance shall be obtained after the decision of Board of Executive Directors in order to alter contents of the Operating Manuals.

Article 15 (Limit of Borrowings)

The amount of unpaid lease-rental and borrowings of the Company shall not exceed 20 times as much as the amount of capital and reserve of the Company.

Article 17 (Limitation on Acquisition of Immovable Assets)

- (1) The Company shall not acquire any immovable asset (excluding the specific items) except those for business use, whatever its purpose or method may be. However, a temporary acquisition shall be exceptional, where deemed indispensable to execute mortgage.
- (2) Immovable assets for business use prescribed in Paragraph 1 shall be limited to buildings and sites directly employed in the head-office, branch-offices and sub-branches (excluding agents) of the Company.

Article 18 (Limit of Lease to the Same Person)

- (1) Lease to the same person or company shall not exceed the scope prescribed in the following:
  1. Within 1 billion Won.
  2. Within 10 times as much as the amount of capital and reserve of lessee.
  3. Within one half of the amount of capital and reserve of the Company.
- (2) "Lease to the same person" referred to in Paragraph 1 shall denote uncollected balance of the purchase cost of lease equipment.

KOREA DEVELOPMENT BANK

Board of Executive Directors of KIILC, as of March 31, 1976

Mr. Chun Woo Lee President	Appointed President of KIILC in December 1974. Spent his whole career in KDB where he was appointed Executive Director in January 1968 and reappointed in January 1972. Age: 56
Mr. Yoon, Keun Oh Senior Executive Director	Appointed Senior Executive Director of KIILC in February 1973. Had long academic career before being appointed, in 1972, to Expert Committee on Accounting and Budget Systems of the Ministry of Finance. Age: 50
Mr. Taek Nyoung Lee Executive Director	Appointed Executive Director of KIILC in December 1972 and reappointed in December 1974. Spent his whole career in Ministry of Finance where his last position was section chief. Age: 57
Mr. Han Byun Yoon Executive Director	Appointed Executive Director of KIILC in December 1972 and reappointed in December 1974. Worked in Ministry of Transportation and Medium Industry Bank, where he was a director for five years before becoming Executive Director of a paper factory for another five years before joining KIILC. Age: 55

KOREA DEVELOPMENT BANK

Summarized Balance Sheets<sup>1/</sup> of KILC, as of December 31, 1973 - 1975  
(Won in Million)

	<u>Operating Method</u>			<u>Financing Method</u>
	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1975</u>
<u>ASSETS</u>				
Current assets	809.5	645.6	496.7	478.4
Fixed assets				
Tangible fixed assets	587.0	3,290.9	7,286.9	1,569.0
(of which for lease)	(576.3)	(3,276.2)	(7,273.8)	(1,555.9)
Lease rentals receivables				11,213.0
Other fixed assets	0.9	1.1	2.8	2.8
Total fixed assets	587.9	3,292.0	7,289.7	12,784.8
Other assets	4.7	225.7	176.3	176.3
Total assets	<u>1,402.0</u>	<u>4,163.3</u>	<u>7,962.7</u>	<u>13,439.5</u>
<u>LIABILITIES &amp; EQUITY</u>				
Current liabilities	5.0	39.3	94.5	75.2
Total liabilities				
Long-term borrowings	850.0	2,468.6	6,068.0	6,068.0
Lessees deposits	64.9	313.8	532.4	532.4
Deferred profit on leases				4,687.4
Other fixed liabilities	5.0	10.9	17.6	579.2
Total term liabilities	<u>919.9</u>	<u>2,793.3</u>	<u>6,618.0</u>	<u>11,867.0</u>
Total liabilities	924.9	2,832.6	6,712.5	11,942.2
Paid-in capital	500.0	1,500.0	1,500.0	1,500.0
Accumulated losses	(22.9)	(169.3)	(249.8)	(2.6)
Total equity	<u>477.1</u>	<u>1,330.7</u>	<u>1,250.2</u>	<u>1,497.3</u>
Total liabilities and equity	<u>1,402.0</u>	<u>4,163.3</u>	<u>7,962.7</u>	<u>13,439.5</u>

<sup>1/</sup> Unaudited



KOREA DEVELOPMENT BANK

Summarized Income Statements<sup>1/</sup> of KIIC, for the Years 1973 through 1975  
(Won in million)

	<u>Operating Method</u>			<u>Financing Method</u>
	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1975</u>
Operating Income	10.0	247.2	1,056.4	682.1
Operating Cost				
Financial Expenses	4.6)	261.3)	379.5	379.5
Depreciation	)	)	498.1	
Total Operating Cost	4.6	261.3	877.6	379.5
Gross Operating Profit	5.5	14.1	178.8	302.6
Administration Expenses	54.0	147.5	221.4	221.4
Operating Profit	(48.5)	(161.6)	(42.6)	81.2
Non-operating Income	28.0	14.7	24.0	23.6
Current Gross Profit	(20.5)	(146.9)	(18.7)	104.8
Non-Operating Expenses	2.3	5.7	61.9	62.0
Current Net Profit	<u>(22.9)</u>	<u>(152.6)</u>	<u>(80.5)</u>	<u>42.8</u>

1/ Unaudited

KOREA  
KOREA DEVELOPMENT BANK

Summary of Guarantee Operations, 1971 - 1975  
(Won in Million)

	<u>1971</u>		<u>1972</u>		<u>1973</u>		<u>1974</u>		<u>1975</u>	
	<u>During</u>	<u>At the end</u>	<u>During</u>	<u>At the end</u>	<u>During</u>	<u>At the end</u>	<u>During</u>	<u>At the end</u>	<u>During</u>	<u>At the end</u>
	<u>The Year</u>	<u>of the Year</u>	<u>The Year</u>	<u>of the Year</u>	<u>The Year</u>	<u>of the Year</u>	<u>The Year</u>	<u>of the Year</u>	<u>The Year</u>	<u>of the Year</u>
<u>Foreign currency guarantees issued</u>	<u>208,709</u>	<u>584,748</u>	<u>120,252</u>	<u>600,049</u>	<u>296,890</u> <sup>2/</sup>	<u>763,132</u>	<u>689,553</u> <sup>2/</sup>	<u>1,278,994</u>	<u>540,058</u> <sup>2/</sup>	<u>1,443,050</u>
(of which (i) covered under the GRA) <sup>1/</sup>	-	-	-	-	-	-	-	-	(50,793)	(1,148,811)
( (ii) covered under GOK )	-	(90,270)	-	(91,920)	-	(70,240)	-	(113,772)	-	(48,064)
( counter guarantee )	-	-	-	-	-	-	-	-	-	-
( (iii) covered under(ii) but )	-	-	-	-	-	-	-	-	-	(7,367)
( excluded from (i) )	-	-	-	-	-	-	-	-	-	-
<u>Domestic currency guarantees issued</u>										
Local payment guarantees	456	3,851	-	266	-	233	-	200	-	167
Local repayment guarantees	6,899	11,190	4,553	10,069	15,111	21,936	4,188	24,814	11,077	30,876
Others	120	540	438	916	1,736	2,124	6,116	7,334	-	5,919
<u>Total domestic currency guarantees</u>	<u>7,475</u>	<u>15,581</u>	<u>4,991</u>	<u>11,251</u>	<u>16,847</u>	<u>24,293</u>	<u>10,304</u>	<u>32,348</u>	<u>11,077</u>	<u>36,962</u>
<u>Total guarantees issued</u>	<u>216,184</u>	<u>600,329</u>	<u>125,243</u>	<u>611,300</u>	<u>313,737</u>	<u>787,425</u>	<u>699,857</u>	<u>1,311,342</u>	<u>551,135</u>	<u>1,480,012</u>
<u>Guarantees redeemed</u>	<u>40,072</u>	<u>-</u>	<u>114,272</u>	<u>-</u>	<u>137,612</u>	<u>-</u>	<u>175,940</u>	<u>-</u>	<u>382,465</u>	<u>-</u>
<u>Guarantee commission earned</u>	<u>3,064</u>	<u>-</u>	<u>3,831</u>	<u>-</u>	<u>3,683</u>	<u>-</u>	<u>4,757</u>	<u>-</u>	<u>7,307</u>	<u>-</u>
(as % of average outstanding guarantees)	0.6	-	0.6	-	0.5	-	0.5	-	0.5	-

1/ Guarantee Release Arrangement dated March 31, 1975 between the Government of Korea and KDB.

2/ New foreign currency guarantees issued during the years 1973 through 1975 can be reconciled with Annex figures after the following adjustments.

	<u>1973</u>	<u>1974</u>	<u>1975</u>
New foreign currency guarantees	206,760	561,203	106,849
Increase from variations in the foreign exchange rates	53,793	41,679	308,832
Other increases	12,110	5,496	16,254
Guarantees on letter of credit	24,227	81,155	108,123
<u>Total</u>	<u>296,890</u>	<u>689,533</u>	<u>540,058</u>

Increases from variations in the foreign exchanges rates arise because of KDB's policy to adjust the recorded value of foreign currency guarantees only at the time a transaction occurs in respect of specific guarantees.

## KOREA

## KOREA DEVELOPMENT BANK

Analysis of Guarantees<sup>1/</sup> Committed 1973 - 1975 and Outstanding as of December 31, 1975  
(Won in Million)

	1973				1974				1975				Outstanding as of December 31, 1975			
	No. <sup>2/</sup>	%	Amount	%	No. <sup>2/</sup>	%	Amount	%	No. <sup>2/</sup>	%	Amount	%	No. <sup>4/</sup>	%	Amount	%
I. Type of Assistance																
Domestic currency	69	51.9	16,194	7.3	24	25.0	10,304	1.8	47	30.3	11,077	9.4	45	50.0	36,723	2.5
Foreign currency <sup>3/</sup>	64	48.1	206,760	92.7	72	75.0	561,203	98.2	108	69.7	106,849	90.6	45	50.0	1,413,048	97.5
Total	133	100.0	222,954	100.0	96	100.0	571,507	100.0	155	100.0	117,926	100.0	90	100.0	1,449,771	100.0
II. Ownership																
Private sector	123	92.5	183,846	82.1	61	63.5	169,314	29.6	144	92.9	67,326	57.1	69	76.7	581,700	40.1
Public sector	10	7.5	39,108	17.5	35	36.5	402,193	70.4	11	7.1	50,600	42.9	21	23.3	868,071	59.9
(of which companies under SAF)	(1)	-	(480)	-	(-)	-	(-)	-	(3)	-	(468)	-	(4)	-	(20,290)	-
Total	133	100.0	222,954	100.0	96	100.0	571,507	100.0	155	100.0	117,926	100.0	90	100.0	1,449,771	100.0
III. Sectoral Distribution																
A. Manufacturing Industries																
Consumer Goods Industries																
Food, beverage and tobacco	14	10.5	3,488	1.6	22	22.9	7,251	1.3	25	16.1	6,314	5.4	3	3.3	11,541	0.8
Textile, wearing apparel and leather	10	7.5	56,965	25.5	2	2.1	18,444	3.2	11	7.1	14,643	12.4	8	8.9	8,371	0.6
Printing and publishing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sub-total	24	18.0	60,453	27.1	24	25.0	25,695	4.5	36	23.2	20,957	17.8	-	12.2	19,912	1.4
Intermediate Goods Industries																
Wood and wood products	-	-	-	-	-	-	-	-	-	-	-	-	1	1.1	200	-
Paper and paper products	-	-	-	-	2	2.1	6,804	1.2	11	7.1	1,461	1.2	3	3.3	7,721	0.5
Chemicals, rubber and plastics	9	6.8	6,088	2.7	5	5.2	1,583	0.3	9	5.8	1,200	1.0	4	4.4	32,318	2.2
Petroleum and coal	3	2.2	12,080	5.4	10	10.4	131,145	22.9	3	1.9	2,107	1.8	15	16.8	335,450	23.2
Non-metallic mineral products	14	10.5	18,444	8.3	11	11.4	20,674	3.6	12	7.8	7,965	6.8	12	13.3	86,813	6.0
Sub-total	26	19.5	36,612	16.4	28	29.1	160,206	28.0	35	22.6	12,733	10.8	35	38.9	462,502	31.9
Capital Goods Industries																
Basic metals	26	19.5	6,144	2.8	18	18.8	172,758	30.3	11	7.1	9,168	7.8	7	7.8	273,755	18.9
Metal products	3	2.3	289	0.1	1	1.0	25	-	2	1.3	735	0.6	1	1.1	867	-
Machinery (except electrical)	3	2.3	6,952	3.1	4	4.2	20,115	3.5	2	1.3	1,339	1.1	7	7.8	37,094	2.5
Electrical machinery	-	-	-	-	-	-	-	-	-	-	-	-	1	1.1	169	-
Transport equipment	6	4.5	60,453	27.1	5	5.2	42,241	7.4	9	5.8	19,698	16.7	15	16.7	164,209	11.4
Sub-total	38	28.6	73,838	33.1	28	29.2	235,139	41.2	24	15.5	30,940	26.2	31	34.5	476,094	32.8
Miscellaneous Industries	-	-	-	-	-	-	-	-	47	30.3	3,278	2.8	1	1.1	2,983	0.2
Total Manufacturing Industries	88	66.1	170,903	76.6	80	83.3	421,040	73.7	142	91.6	67,908	57.6	78	86.7	961,491	66.3
B. Non-Manufacturing Industries																
Agriculture, forestry and fishery	3	2.3	10,203	4.6	2	2.1	243	-	3	1.9	8,445	7.2	1	1.1	18,817	1.3
Mining and quarrying	-	-	-	-	-	-	-	-	1	0.7	130	0.1	1	1.1	130	-
Electricity and waterworks	2	1.5	7,856	3.5	8	8.3	82,234	14.4	2	1.3	4,539	3.8	3	3.4	321,817	22.2
Construction	-	-	-	-	-	-	-	-	1	0.6	2,016	1.7	1	1.1	4,194	0.3
Transportation	7	5.3	33,639	15.1	6	6.3	67,990	11.9	5	3.2	34,259	29.1	1	1.1	128,763	8.9
Banking and insurance	3	2.3	122	0.1	-	-	-	-	1	0.7	629	0.5	2	2.2	5,357	0.3
Hotel and tourism	30	22.5	231	0.1	-	-	-	-	-	-	-	-	1	1.1	2,091	0.2
Other services	-	-	-	-	-	-	-	-	-	-	-	-	2	2.2	7,111	0.5
Total Non-Manufacturing Industries	45	33.9	52,051	23.4	16	16.7	150,467	26.3	13	8.4	50,018	42.4	12	13.2	488,280	33.7
GRAND TOTAL	133	100.0	222,954	100.0	96	100.0	571,507	100.0	155	100.0	117,926	100.0	90	100.0	1,449,771	100.0
IV. Nature of Project																
New	19	14.3	98,292	44.1	26	27.1	287,681	50.3	12	7.7	19,340	16.5	19	21.1	318,862	22.0
Expansion	82	61.7	104,157	46.7	40	41.6	262,629	46.0	45	29.0	77,660	65.8	66	73.4	1,069,230	73.8
Enhancing, modernization, replacement	-	-	-	-	-	-	-	-	1	0.7	198	0.2	-	-	198	-
Working capital	26	19.5	16,416	7.4	26	27.1	19,653	3.4	67	43.2	11,000	9.3	2	2.2	36,481	2.5
Other	6	4.5	4,089	1.8	4	4.2	1,544	0.3	30	19.4	9,728	8.2	3	3.3	25,000	1.7
Total	133	100.0	222,954	100.0	96	100.0	571,507	100.0	155	100.0	117,926	100.0	90	100.0	1,449,771	100.0
V. Geographical Distribution																
Seoul city	88	66.2	56,557	25.4	38	39.6	115,787	20.3	37	23.9	21,816	18.5	22	24.4	282,705	19.5
Kyunggi province	7	5.3	7,040	3.1	8	8.4	27,131	4.7	22	14.2	9,906	8.4	23	25.7	124,680	8.6
South Chung-cheong province	2	1.5	8,911	4.0	3	3.1	12,681	2.2	1	0.7	590	0.5	2	2.2	20,297	1.4
North Chung-cheong province	2	1.5	3,710	1.7	2	2.1	13,398	2.3	5	3.2	2,594	2.2	3	3.3	40,594	2.8
Kang-won province	7	5.3	13,567	6.1	5	5.2	15,678	2.7	7	4.5	5,896	5.0	3	3.3	85,536	5.9
South Jeon-ra province	4	3.0	3,991	1.8	12	12.5	130,767	22.9	14	9.0	16,745	14.2	5	5.6	175,422	12.1
North Jeon-ra province	1	0.7	3,672	1.6	1	1.0	14,043	2.5	2	1.3	943	0.8	2	2.2	21,747	1.5
South Kyung-sang province	11	8.3	105,008	47.1	9	9.4	64,449	11.3	31	20.0	27,477	23.3	19	21.1	292,854	20.2
North Kyung-sang province	4	3.0	5,109	2.3	15	15.6	169,203	29.6	27	17.4	23,467	19.9	2	2.2	260,959	18.0
Busan city	6	4.5	14,209	6.4	2	2.1	7,478	1.3	8	5.2	8,373	7.1	8	8.9	142,078	9.8
Che-ju Island	1	0.7	1,180	0.5	1	1.0	892	0.2	1	0.6	119	0.1	1	1.1	2,899	0.2
Total	133	100.0	222,954	100.0	96	100.0	571,507	100.0	155	100.0	117,926	100.0	90	100.0	1,449,771	100.0
VI. Size of Assistance (Won)																
Less than 8,000,000	31	23.3	233	0.1	-	-	-	-	3	1.9	20	0.0	41	7.1	173	0.0
8,000,001-----20,000,000	7	5.3	96	0.0	1	1.0	20	0.0	10	6.5	165	0.1	32	9.0	657	0.0
20,000,001-----40,000,000	11	8.3	296	0.1	7	7.3	255	0.0	35	22.6	981	0.9	38	6.6	955	0.1
40,000,001-----120,000,000	34	25.5	2,298	1.0	8	8.3	763	0.1	34	21.9	2,369	2.0	65	11.2	5,672	0.4
120,000,001-----200,000,000	5	3.8	820	0.4	7	7.3	1,193	0.2	13	8.4	1,487	1.3	39	6.7	5,355	0.4
200,000,001-----400,000,000	12	9.0	4,683	2.1	9	9.4	2,730	0.5	22	14.2	5,146	4.4	40	6.9	11,166	0.8
400,000,001-----800,000,000	8	6.0	5,709	2.6	8	8.3	4,821	0.9	15	9.7	7,842	6.6	55	9.5	31,561	2.2
800,000,001-----2,000,000,000	4	3.0	7,765	3.5	21	21.9	171,144	30.0	9	5.8	12,972	11.0	72	12.4	87,876	6.0
2,000,000,001 and above	21	15.8	201,054	90.2	35	36.5	390,581	68.3	14	9.0	86,944	73.7	177	30.6	1,306,356	90.1
Total	133	100.0	222,954	100.0	96	100.0	571,507	100.0	155	100.0	117,926	100.0	379	100.0	1,449,771	100.0
VII. Duration																
Less than 1 year	14	10.5	3,488	1.6	20	20.8	8,091	1.4	51	32.9	10,521	8.9				
1 year - less than 2 years	4	3.0	989	0.4	1	1.0	150	-	30	19.4	8,309	7.0				
2 years - less than 4 years	9	6.8	638	0.3	7	7.3	6,607	1.2	2	1.3	355	0.3				
4 years - less than 6 years	21	15.8	25,508	11.4	7	7.3	48,050	8.4	20	12.9	21,819	18.5				
6 years - less than 8 years	29	21.8	19,865	8.9	19	19.9	59,052	10.3	24	15.5	16,921	14.3				
8 years - less than 10 years	39	29.3	77,997	35.0	17	17.7	102,367	17.9	25	16.1	58,593	49.8				
10 years - less than 15 years	16	12.0	84,626	38.0	20	20.8	157,912	45.2	2	1.3	1,293	1.1				
15 years - and over	1	0.8	9,843	4.4	5	5.2	89,278	15.6	1	0.6	115	0.1				
Total	133	100.0	222,954	100.0	96	100.0	571,507	100.0	155	100.0	117,926	100.0				

<sup>1/</sup> Excludes guarantees for letters of credit and guarantees transferred to the Readjustment Corporation (W29,760 million and W481 million respectively outstanding as of December 31, 1975).

<sup>2/</sup> Number of operations.

<sup>3/</sup> Increases and decreases caused by fluctuations in the foreign exchange rates are not reflected, except for guarantees outstanding as of December 31, 1975.

<sup>4/</sup> Number of companies (except for VI Size of Assistance where figures indicate the number of operations).

KOREA

KOREA DEVELOPMENT BANK

Rates of Interest in Korea before and after August 2, 1976  
(percent per annum)

	<u>Before</u>	<u>After</u>		
		<u>Up to 3</u>	<u>3 to 8</u>	<u>Over 8</u>
		<u>years</u>	<u>years</u>	<u>years</u>
I. <u>Interest rates charged by KDB</u>				
a. <u>Capital Loans</u> <sup>1/</sup>				
Government funds	12.0	12.0	12.0	12.0
Machine Industry Promotion Funds	12.0	13.0	14.0	15.0
Special Equipment Funds	12.0	13.0	14.0	-
Internal Funds (priority industries)	12.0	13.0	14.0	15.0
Internal Funds (non-priority industries)	15.5	17.0	18.0	19.0
Foreign Commercial Funds <sup>2/</sup>	12.0	12.0	12.0	12.0
b. <u>Working Capital Loans</u> <sup>1/</sup>				
Government Funds	15.5	15.5	15.5	15.5
Machine Industry Promotion Funds	12.0	13.0	13.0	13.0
Special Equipment Funds	17.0	13.0	13.0	13.0
Internal Funds (prime clients)	15.5	17.0	17.0	17.0
Internal Funds (other clients)	15.5	18.0	18.0	18.0
Foreign Commercial Funds <sup>2/</sup>	12.0	12.0	12.0	12.0
c. <u>National Investment Fund</u> <sup>1/3/</sup>	12.0	13.0	14.0	-
d. <u>Tourism Development Fund</u> <sup>1/3/</sup>	7.5	7.5	7.5	7.5
e. <u>Industrial Rationalization Fund</u> <sup>1/</sup>				
Direct Loans	12.0	13.0	14.0	-
through Banking Institutions	10.0	11.5	12.5	-
f. <u>Government Special Fund Loans</u> <sup>1/4/</sup>	6-9	6-9	6-9	6-9
g. <u>Foreign Currency Loans</u>				
Foreign Commercial Funds <sup>5/</sup>	9.0	9.0	9.0	9.0
USAID (3rd Loan)	10.0	10.0	10.0	10.0
KfW (4th Loan)	9.0	9.0	9.0	9.0
ADB (5th Loan)	10.75	10.75	10.75	10.75
IBRD	10.50	10.50	10.50	10.50
h. <u>Penalty rate on overdue loans</u>	25.0	25.0	25.0	25.0

<sup>1/</sup> In domestic currency.

<sup>2/</sup> Exchange risk passed on to borrowers.

<sup>3/</sup> Capital and working capital loans.

<sup>4/</sup> For power development, shipbuilding, coal mining, public utilities, maritime transportation, railways and roads.

<sup>5/</sup> Export Industries only.

II. <u>Commercial Banks</u>		<u>Before</u>	<u>After</u>
<u>Interest Rates on Deposits</u>			
a.	<u>Time Deposits</u>		
	Over 3 months	12.6	15.0
	Over 6 months	13.8	15.6
	Over 1 year	15.0	16.2
b.	<u>Installment Savings</u>		
	Over 1 year	11.2	12.2
	Over 2 years	12.2	13.2
	Over 3 years	13.2	14.2
c.	<u>Wage Earners' Savings Scheme</u> <sup>1/</sup>		
	Over 1 year	22.8(12.2)	23.8(13.2)
	Over 3 years	23.2(13.2)	24.2(14.2)
	Over 5 years	27.2(15.2)	28.2(16.2)
<u>Interest Rates on Lending</u>			
a.	<u>Operating Funds</u>		
	<u>Ordinary loans</u>		
	Qualified enterprises	15.5	17.0
	Ordinary enterprises	15.5	18.0
	<u>Commercial notes</u>		
	Qualified enterprises	17.0	17.0
	Ordinary enterprises	18.0	18.0
	<u>Overdraft</u>		
	Qualified enterprises	17.5	18.0
	Ordinary enterprises	17.5	19.0
b.	<u>Term Loans</u>		
	Shorter than 3 years	15.5	17.0
	Shorter than 8 years	15.5	18.0
	In excess of 8 years	15.5	19.0
c.	Export Finance	7.0	8.0
d.	Financing of raw material import by export industry	EURO + 2.5	EURO + 2.5
e.	<u>National Investment Fund</u>		
	No longer than 3 years	12.0	13.0
	No longer than 8 years	12.0	14.0

<sup>1/</sup> Percentage values in parantheses are the basic interest rates payable by financial institutions; the remainder is subsidized by Government.

III. <u>Medium Industry Bank</u>	<u>Before</u>	<u>After</u>
<u>Internal Fund Loans</u>		
Shorter than 3 years	15.5	17.0
Shorter than 8 years	15.5	18.0
In excess of 8 years	15.5	19.0
<u>Government Funds</u>		
Equipment Loans	10.0	10.0
Cooperatives	12.0	12.0
Working Capital Loans	15.5	15.5
<u>Foreign Loan Funds</u>		
USAID and OECF, Japan	8.0	8.0
Exim Bank Japan	8.25	8.25
KfW	9.0	9.0
ADB	10.25	10.25
IBRD	10.5	10.5
IV. <u>Korea Development Finance Corporation</u>		
<u>Medium-and Long-term Domestic Currency Loans</u>		
Priority projects	15.5	18.0
Others	15.5	20.0
Foreign Currency Loans	10.5 to 11	10.5 to 11

KOREAKOREA DEVELOPMENT BANKResource Position as of December 31, 1975  
(won in millions)A) Domestic Currency Resources1. Long-term Resources:a) Raised in domestic currency

## Equity:

Paid in capital

203,200

Reserves and retained earnings

50,527

253,727

## Borrowings:

Government

149,074

Industrial Rationalization Fund

51,112

National Investment Fund

125,629

Tourism Development Fund

380

326,195

## Debentures

68,519

## Revolving funds

4,139

## Time deposits

115

## Sub-total

652,695b) Raised in foreign currency<sup>1/</sup>

## Debentures

9,167

## Commercial borrowings and time deposits

40,222

## Sub-total

49,389

## Total long-term resources in domestic currency

702,084

## Less: term loans outstanding in domestic currency

504,577

## Investment outstanding

145,119

## Receivables from property disposed

28,639

## Time deposits

12,545

## Fixed assets

5,392696,272

## Resources available for disbursement

5,812

## Less undisbursed commitments

-

## Resources available for commitment

5,8122. Short-term ResourcesShort-term deposits

41,894

## Others

1,419

## Total short-term resources

43,313

## Less: Operating loans (less than 12 months)

29,817Short term resources available for disbursement  
and commitments13,496B) Foreign Currency ResourcesBorrowings from official sources<sup>2/</sup>

IBRD

29,100

AID

5,991

ADB

58,883

KFW

5,146

99,120

## Borrowing from commercial sources and time deposits

17,803

## Total foreign currency resources

116,923

## Less: foreign currency loans outstanding

48,983

## Foreign currency resources available for disbursement

67,940

## Less: undisbursed commitments

29,403

## Foreign currency resources available for commitment

38,537

## Less: uncommitted approvals

1,023

## Foreign currency resources available for approval

37,514<sup>1/</sup> Intended to be used for domestic currency operations.<sup>2/</sup> Net of repayments.

KOREA DEVELOPMENT BANKDetails of Long-Term Resources, as of December 31, 1975

1. As shown in Annex 5, KDB had, as of December 31, 1975, total long-term resources of W818.5 billion (US\$1.7 billion) of which W652.2 billion (79.7%) were in domestic currency and W166.2 billion (20.3%) in foreign currency. Below is a breakdown of KDB's long-term resources as of December 31, 1975 followed by a brief description of each resource with the table attached to this annex giving a summary of the main terms and conditions of KDB's long-term borrowings:

<u>Domestic Currency</u>	<u>Won million</u>	<u>US\$ million equivalent</u>
Paid in capital	203,200	419.0
Reserves and retained earnings	<u>50,527</u>	<u>103.2</u>
Total equity	253,727	522.2
 Borrowings from Government	 149,074	 307.4
Industrial Rationalization Fund	51,112	105.4
Tourism Development Fund	380	0.8
National Investment Fund	125,629	259.0
Industrial Finance Debentures	68,519	141.3
Revolving Funds	4,139	18.5
Time Deposits	<u>115</u>	<u>0.2</u>
Total domestic currency resources	<u>652,695</u>	<u>1,345.8</u>
(% of total resources)	(79.7)	
 <u>Foreign Currency</u>		
ADB	58,883	121.4
World Bank	29,100	60.0
AID	5,991	12.4
KfW	<u>5,146</u>	<u>10.6</u>
Borrowings from official sources	99,120	204.4
Borrowings from foreign commercial sources	38,720	79.8
Industrial Finance Debentures (foreign)	9,167	18.9
Time Deposits	<u>19,305</u>	<u>39.8</u>
Commercial borrowings	<u>67,192</u>	<u>138.5</u>
Total foreign currency resources	<u>166,312</u>	<u>342.9</u>
(% of total resources)	(20.3)	
Total Resources	<u>819,007</u>	<u>1,688.7</u>



Domestic Currency Resources

2. Paid in Capital. KDB's authorized capital is W300 billion of which 67.7% (W203.2 billion) had been paid in as at the end of 1975, all of which is subscribed by the Government of Korea, as is provided in KDB's Act. Since 1971 KDB's capital has been increased by W148.7 billion or 370%. In 1972 the Government more than doubled the paid in capital (from W54.5 billion to W110.1 billion) to help KDB carry out the August 1972 Emergency Decree and it further increased the paid in capital by 70% in 1975 (from W119.7 billion to W 203.2 billion). The Government makes capital contributions basically in three forms: through cash contributions, conversion of loans and transfer of shares in Government-owned enterprises. Total capital increases between 1971 and 1975 were made as follows:

	<u>Won in million</u>	<u>%</u>
Cash contributions	73,376	49.3
Loan conversions	20,000	13.4
Share transfers	55,359	37.3
Total capital increase	<u>148,735</u>	<u>100.0</u>

3. Loan conversions were all made during 1975, on account of loans given by the Government to KDB between 1965 and 1974 at a rate of 6% p.a. with terms of 35 years including five year grace period. Most of the Share Transfers were also made during 1975 (W 50.0 billion) when the Government was unable to make cash contributions due to tight budgetary position. During 1976, the Government plans to increase KDB's paid in capital by an additional amount of W21.7 billion.

4. Reserves and Retained Earnings: In accordance with the KDB Act, net income is credited to legal reserves; KDB does not pay income/corporate tax and also is not required to pay any dividends to the Government. The Act also provides that net-losses incurred during any year should be charged against legal reserves and if total losses should exceed this amount, the Government shall cover such deficiency. In 1961, the Government made a special cash contribution of W1.5 billion for establishing a Special Reserve to be charged with any losses resulting from loans made prior to December 27, 1961 and from KDB's investment in the Readjustment Corporation (see Annex 12). So far, KDB has made only minor write-offs against these Special Reserves amounting to W6.6 million. As of December 31, 1975, KDB's reserves and retained earnings were shown as follows (in million Won):

Legal Reserves	34,913
Special Reserves	1,493
Net income for the year	<u>14,121</u>
Total	<u>50,527</u>

Legal reserves (and equity) as stated above are, in fact, overstated because provisions for doubtful loans amounting to W3.6 billion are also included and treated as part of KDB's equity.

5. Borrowings from Government. Borrowings from the Government have been an important source of funds for KDB. Its reliance on this source has somewhat diminished in recent years, however, particularly since KDB can draw on substantial funds from the NIF (see para 10). As of December 31, 1975 borrowings from the Government accounted for 19% of total resources (down from 33% in 1971). The Government makes loans to KDB from three sources: the Economic Development Fund, the Foreign Loan Repayment Fund and AID-Counterpart Fund. As of December 31, 1975, the contribution from each fund was as follows (in million Won):

Economic Development Fund	133,726
Foreign Loan Repayment Fund	152
AID Counterpart Fund	15,196
Total	<u>149,074</u>

Loans from the Foreign Loan Repayment Fund will be fully repaid by KDB during 1976. The Government had made these loans out of grants received from abroad or out of counterpart-funds created through early repayment of official loans from abroad by various Government Agencies. The AID Counterpart Fund was also created likewise and loans were originally given to KDB for making equipment loans to government projects. Interest rates on AID counterpart fund borrowings range from 2% to 5% p.a. with the weighted average rate being 2.4%; repayment terms were 10 to 35 years with the latest repayments by KDB falling due in the year 2007. During the past five years the Government has not made any new loans from the AID Counterpart Fund to KDB.

6. The Economic Development Fund represents the Government's own general funds and allocations to KDB are usually made for pre-identified projects. The interest rate charged by the Government varies between 6% and 13.5% with a weighted average rate of 6.1% as of December 31, 1975. Repayment ranges from 5 to 35 years with grace periods of up to 5 years.

7. Industrial Rationalization Fund. This fund was created in KDB under the Emergency Decree of August 1972 for providing financial assistance on favorable terms (8% p.a. interest for up to eight years with 3 years grace period) for the rationalization and development of priority industries such as basic industries or machinery and export industries. The IRF is administered by KDB within the broad policy guidelines formulated and laid down by the IRF Council which is under the control of the Prime Minister and comprises 4 officially appointed members plus the Governors of KDB and Bank of Korea and the Presidents of Korea Institute of Science and Technology and Korea Development Institute. Investment decisions on specific sub-projects are taken by KDB on the basis of its appraisal of each sub-project.

8. As of December 31, 1975 borrowings from the IRF amounted to W66.6 billion. The resources of the IRF consist of borrowings from the Government (W51.1 billion or 76.7%) and issuance of IFD's (W15.5 billion or 23.3%). Although no further borrowings from the IRF are envisaged at present, KDB will be able to continue to extend IRF loans to the extent that collections from its clients will exceed the repayments it has to make to the Government. The Government has lent

funds to the IRF from PL-480 Funds (tallow imports), USAID Counterpart Funds and its direct borrowings for this purpose from the OECF and the Ex-Im Bank, both of Japan. These borrowings carry interest rates of 2% - 5% p.a. and have long repayment periods (15 to 40 years including grace periods ranging from 5 to 10 years). They have a "Dollar/Yen value maintenance clause" and therefore entail an exchange risk for KDB. To guard against the exchange risk, KDB has to make special provisions in the amount of 1.5% of the average outstanding borrowings under the IRF. Losses due to exchange rate fluctuations in excess of this reserve are to be met by the Government of Korea. IFD's issued by KDB under the IRF are identical to its regular IFD's (see para 12).

9. Tourism Development Fund. Loans from the TDF have been provided to KDB by the Ministry of Transportation for financing of tourism projects such as hotels, etc. The total borrowings from the TDF amounted to W380 million and no further increase is expected. KDB pays 6% interest p.a. on these funds which it has relented at 7.5%. The repayment term is 10 years including a two year grace period.

10. National Investment Fund. On January 1, 1974 the Government instituted the NIF with the main purpose of improving the flow of domestic savings into investments in heavy and chemical industries. The NIF is under the jurisdiction of the Ministry of Finance and is in effect managed by the Bank of Korea. Policy decisions are taken by the NIF Management Council comprising the Prime Minister and the ministers of eight ministries, the Governors of BoK and KDB and three other members appointed by the Government. The Council also decides on operational and managerial criteria and prepares an annual Supply and Operations Programs which indicates the supply and uses (by industrial sector) of the Fund. The NIF derives its funds from (a) direct Government contributions, (b) the sale of NIF-Bonds to National Savings Associations, the newly set up National Welfare Pension Fund System, Postal Insurance and Trust Companies and public funds designated by special Presidential Decree and (c) from repayments of loans. Although the main emphasis in lending is given to heavy and chemical industries, loans are also extended to the power sector, agricultural production, Saemaul factories and for export financing.

Fund Program of the NIF, 1975 and 1976

<u>Sources</u>			<u>Uses</u>		
	<u>1975<sup>1/</sup></u>	<u>1976</u>		<u>1975<sup>1/</sup></u>	<u>1976</u>
1. National Savings Associations	11.3	14.0	1. Heavy & Chemical Ind.	44.7	105.5
2. Postal Savings	15.0	18.5	2. Increase of Agricultural Production	11.4	19.5
3. Public Funds	16.8	20.0	3. Electric Power	43.2	40.0
4. Banking Institutions	81.1	99.7	4. Saemaul Factories	4.3	5.0
5. Trust Companies	-	-	5. Export Credits	3.0	10.0
6. Non-life Ins. Companies	7.5	9.0	6. Undisbursed	18.0	
7. Repayments	5.7	6.0			
8. Transfer from the previous year	-	12.8			
<u>TOTAL</u>	<u>137.4</u>	<u>180.0</u>	<u>TOTAL</u>	<u>124.6</u>	<u>180.0</u>

<sup>1/</sup> Actual

The NIF lends available funds to banking institutions which, as intermediaries, receive the applications for eligible projects and perform appraisal and supervision functions. Presently banking institutions pay 10.5% on their borrowings from the NIF and receive a spread of 1.5% on their relending. Repayment schedules are synchronized and are for periods of 8 years (equipment loans) and up to 3 years (working capital loans).

11. KDB receives its allocations from the NIF on an annual basis, but actual disbursements are linked with disbursements for individual subprojects. To a certain extent KDB is free to select the borrowers from among the industries specified in its annual NIF program but has also specific projects allocated to it by the NIF Council. In such cases it usually approves the loans after checking the compliance of the project proposal with the NIF selection criteria (soundness of financial structure, appropriateness of size of loan, maturity, repayment prospects and project and funding plan) making suggestions of changes, where appropriate. Loans for projects earmarked by the NIF Council amounted to W 53.7 billion in 1975 (67% of total allocations) including W 43.2 billion (54% of total allocations) for KECO. Outstanding loans under the NIF (net of repayments) amounted to W 116.8 billion or 20% of KDB's total portfolio. Since its inception, the NIF gradually has become KDB's most important source of funds and is likely to further increase its share in KDB's total resources. In its operational program for 1976, for instance, KDB expects the NIF to account for about 50% of total financing of its loan commitments.

12. Industrial Finance Debentures. In terms of its Act, KDB is the only institution in Korea that can issue IFD's. Repayment of IFD's is secured by Government guarantee and, therefore, prior approval of the National Assembly is required before IFD's can be issued by KDB. At the end of 1975 KDB had outstanding IFD's amounting to W 68.5 billion (W 15.5 billion of which were on account of IRF), which were subscribed by local banks (27%) and the general public (73%). Duration of IFD's is between two and five years; since 1973 KDB has issued IFD's with two and three year maturities only (in the ratio of about 3:1). IFD's are presently issued at an interest rate of 12.4% and 13.2%, depending on duration, but because interest is payable in advance, the effective cost to KDB is between 18% and 20%. Since KDB's maximum lending rate is 15.5% p.a., it issues the IFD's, in effect, at a negative margin. The losses incurred during 1975, for instance, amounted to W 1.2 billion but because KDB receives compensation from the Government for losses on loans to Government designated projects (such compensation totalled W 198 million in 1975), the net loss it suffered amounted to W 1.0 billion. Assuming that KDB, as it has stated, will issue new IFD's only to the extent of redemption of old ones, the annual loss suffered by KDB will still continue to be sizeable. During negotiations KDB's policy of rolling over its IFD portfolio should be discussed to ascertain whether it can afford to let its outstanding IFD's decline gradually at least until it can issue them at a positive spread.

13. Revolving Funds. USAID and KfW foreign currency loans have fixed repayment schedules with final due dates between 1980 and 2003. KDB's collections from sub-loans exceeding its own repayment obligation are pooled in two separate funds - AID Revolving Fund and KfW Revolving Fund - and are subsequently used to finance new domestic currency loans. In making these second round loans, KDB passes on the exchange risk to the borrower through a "Dollar/Deutsche Mark value maintenance clause". Since KDB is exposed to the foreign exchange risk between the time it receives collections and makes disbursements on second round loans, it judiciously manages these funds so as to reduce the time gap to a minimum. Of the total outstanding funds as of December 31, 1975 of W 4.1 billion, W 475 million (or 11%) were still unused. KDB protects itself against foreign exchange risk on this amount by keeping adequate deposit balances in foreign currencies. Interest payable on revolving fund loans is the same as on loans funded from foreign commercial sources (presently 12% p.a.). The same technique is employed to guard against the exchange risk involved in using the proceeds of commercial borrowings (see paragraph 18).

14. Deposits. According to its Act, KDB is authorized to accept time deposits in domestic as well as foreign currency. While time deposits were an important resource for KDB only as far back as 1971, when they accounted for 12% of total long term debt, they have dropped to an insignificant level of W 115 million by the end of 1975 as the result of a 1974 policy decision by KDB's management not to promote mobilization of deposits anymore because the maturities of such deposits usually are only one year which does not suit KDB's needs, and because KDB's branch net-work is too small (9 branches) to have any significant impact.

#### Foreign Currency Resources

15. Foreign Currency Lines of Credit. KDB contracted its first foreign currency borrowing from USAID in April 1960 in the form of a line of credit of US\$ 5 million equivalent followed by two more lines of credit totalling US\$ 22.4 million in 1966 and 1968. The loan obtained in 1960 has in the meantime been fully repaid. In 1966 it also began borrowing from Kreditanstalt fur Wiederaufbau from Germany from which it has since received three loans totalling DM 40 million (US\$ 16.9 million). Both USAID and KfW loans are basically borrowings by the Government of Korea which relends to KDB. Except for a small residual of the 3rd KfW line of credit, all amounts have been fully committed, and as of December 31, 1975 outstanding loans from USAID and KfW amounted to W 11.1 billion. KDB pays interest of 5% to 8%, relending at a spread of 2% to 4%; the most recent loans from KfW (1970 and 1973) are at a 2% spread. Repayment schedules for all five loans are fixed (10 to 30 years) and KDB can relend a part of the collections from its sub-loans (see paragraph 13). KDB expects a fourth KfW loan of DM 20 million later this year.

16. KDB established its relationship with ADB in 1970 when it obtained a line of credit of US\$10 million. This was followed by three other lines of credit in 1972, 1974 and 1975<sup>1/</sup> totalling US\$90 million. In 1975 KDB and ADB jointly appraised a project for which ADB provided W17.5 billion through KDB. For its borrowings from ADB, KDB has paid varying interest rates ranging from 7.5% to 8.75% and has onlent these funds with a spread of 2%. The exchange risk on all ADB loans is born by the sub-borrower. While repayment schedules for the first four loans are related to KDB's collections from the sub-loans, the latest loan has a fixed repayment schedule (1978-1989) thereby allowing KDB to "revolve" a part of its future collections.

17. The World Bank made its first loan to KDB in 1975, in the amount of US\$60 million with repayment tied to collections from the sub-loans. The loan carries interest at the rate of 8.5% to which KDB adds a 2% spread.

18. Borrowings from Foreign Commercial Sources. KDB obtained its first Eurodollar loan of US\$25 million in June 1970. This loan has been fully repaid in 1975. In 1974, KDB again went to the Eurodollar market for a US\$80 million placement which was managed by four banks (Bankers Trust Company of London, Citicorp International Bank, Ltd., London, Asia Pacific Capital Corporation, Hong Kong and B. T. Finance Ltd. Hong Kong) and was subscribed by 38 banks from Japan, U.K., USA, Hong Kong, Singapore, Canada and Australia. The loan is repayable between 1977 and 1984 and carries a floating interest rate (LIBOR plus 1% - 7.75% as of March 31, 1976) which is fixed semi-annually. KDB onlends these funds also at a floating rate which is fixed by its International Department on the basis of average cost of its commercial borrowings at floating rates plus a mark-up and presently is set at 12%. KDB passes the exchange risk on to its sub-borrowers (see paragraph 13). During 1976 KDB was able to obtain another Eurodollar loan of US\$80 million with a repayment period of 5 years at an interest rate of 1.875% above LIBOR and ¥ 5 billion (US\$17 million) from a Japanese banking consortium, repayable over 7 years including 2 years grace period, at 0.7% above the Japanese prime rate.

19. Industrial Finance Debentures. In October 1974 KDB issued for the first time IFD's in foreign currency for US\$18.8 million to the Government of Abu Dhabi. The Debentures are repayable over 9 years beginning 1980. The on-lending rate is determined as described in paragraph 18 and the exchange risk is also passed on to the sub-borrowers. On April 20, 1976, KDB signed another agreement for the issuance of IFD's in Abu Dhabi, this time in the amount of US\$15 million. The interest rate for these debentures is 9.5% p.a. and they are redeemable after 5 years (1981). In addition, in July, KDB issued US\$10 million IFD's again in Abu Dhabi, at a rate of 9.25% p.a., which is repayable in 1979.

20. Deposits. KDB has received foreign currency deposits in the amount of W 35.1 billion (W 18.0 billion from Korea Exchange Bank and W 17.1 million from the Asia Pacific Capital Corporation, Hong Kong). These deposits are for 6

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<sup>1/</sup> This loan became effective in March 1976.

months to one year duration, with rollover feature. KDB originally had intended to repay these deposits in 1974 and 1975. However, due to its own resource constraints, it was unable to do so. KDB plans to reduce these deposits by W 20 billion in 1976 and a further W 12 billion in 1977. The deposit rates vary between  $8\frac{1}{4}\%$  and  $15\frac{3}{4}\%$  with the average rate at about  $11\%$ . Onlending terms are the same as with Eurodollar loans described in paragraph 18.

## KOREA

## KOREA DEVELOPMENT BANK

Terms and Conditions of Long-term Borrowings as of December 31, 1975

Source of Funds	Amount		Borrowing rate (%)	onlending rate (%)	Maximum duration for KDB (years)	Maximum duration for KDB sub-borrowers (years)	Limit on sub-loan amount	Free Limit	Procurement tied or free	KDB repayment	Date of Loan Agreement
	W in billion or equivalent W in billion	US\$ in million or equivalent US\$ in million									
I. Foreign Currency											
USAID											
2nd loan	5.51	11.37	5	8	15	15	\$100,000 to \$1.0 million	\$300,000	Tied to USA	Fixed (1971 to 1981)	November 9, 1966
3rd loan	5.34	11.00	6	10	15	15	\$100,000 to \$1.0 million	\$300,000	Tied to USA	Fixed (1971 to 1985)	June 26, 1968
Sub-total	10.85	22.37									
KFW											
1st loan	4.00	8.25	5	8	20	15	DM 800,000 (\$310,500 or less)	DM 500,000 (\$194,000)	Free	Fixed (1971 to 1986)	January 24, 1966
2nd loan	2.00	4.12	8	10	10	10	DM 200,000(\$78,000) to DM 1.2 million (\$194,000)	DM 500,000 (\$194,000)	Free	Fixed (1972 to 1980)	October 14, 1970
3rd loan	2.00	4.13	7	9	30	15	DM200,000(\$78,000) to DM 1.0 million (\$194,000)	DM 500,000 (\$194,000)	Free	Fixed (1986 to 2003)	November 12, 1973
Sub-total	8.00	16.50									
ADB											
1st loan	4.85	10.00	Variable (8.0)1/	10	15	15	\$100,000 to \$1.0 million	\$200,000	Free	Tied to sub-projects	November 23, 1970
2nd loan	9.70	20.00	Variable (7.5)1/ rate plus 2%	Borrowing rate plus 2%	15	15	\$100,000 to \$1.0 million	\$200,000	Free	Tied to sub-projects	December 13, 1972
3rd loan	14.55	30.00	Variable (8.5)1/ rate plus 2%	Borrowing rate plus 2%	15	15	\$100,000 to \$2.0 million	\$500,000	Free	Tied to sub-projects	March 20, 1974
4th loan	17.50	36.08	8.75	10.75	15	15	Total tied to one specific sub-project	-	Free	Tied to sub-projects	May 30, 1975
5th loan	19.40	40.00	8.75	10.75	15	15	\$100,000 to \$750,000	\$750,000	Free	Fixed (1978 to 1989)	December 12, 1975
Sub-total	66.00	136.08									
IBRD											
1st loan	29.10	60.00	8.5	10.5	18	18	\$4.0 million	\$750,000	Free	Tied to sub-projects	March 31, 1975
Commercial Banks											
2nd loan 2/	38.80	80.00	Inter-bank rate 3/ + 1%	Variable 4/	15		(-----No restriction-----)		Free	Fixed (1977 to 1981)	June 24, 1974
3rd loan	38.80	80.00	Inter-bank rate 3/ + 1.875%	Variable 4/	5		(-----No restriction-----)		Free	Fixed (1978 to 1981)	June 25, 1976
Japanese Banks	8.25	17.00	Japanese prime rate + 0.7%	Variable 4/	7		(-----No restriction-----)		Free	Fixed (1978 to 1983)	July 21, 1976
Industrial Finance Debentures											
2nd issue	9.12	18.80	8.5	Variable 4/	15		(-----No restriction-----)		Free	Fixed (1980 to 1989)	October 10, 1974
3rd issue	7.38	15.22	9.5%	Variable 4/	5		(-----No restriction-----)		Free	1981	April 20, 1976
4th issue	4.05	10.00	9.25%	Variable 4/	3		(-----No restriction-----)		Free	1979	July 15, 1976
Total of all foreign currency borrowings	221.15	455.97									
II. Domestic Currency											
Government of Korea											
Economic Development Fund	133.73	275.73	6 to 13.5	6 to 15.5	5 to 35		No restriction (-----Not applicable-----)			Fixed (1973 to 2010)	1962-1975
Foreign Loan Repayment Fund	0.15	0.31	5	6 to 15.5	10		No restriction (-----Not applicable-----)			Fixed (1974 to 1976)	1966
Counterpart Funds	15.20	31.34	2 to 5	6 to 15.5	10 to 35		No restriction (-----Not applicable-----)			Fixed (1974 to 2007)	1962-1971
Sub-total	149.08	307.38									
Industrial Finance Debentures 5/	80.86	166.72	12.0-13.2	12-15.5	2 to 3		No restriction (-----Not applicable-----)			Fixed (1976 to 1978)	1973-1975
Industrial Rationalization Fund	51.11	105.38	3 to 5	10-12	10 to 40		Capital loans: 8 (-----Not applicable-----)			Fixed (1978 to 2013)	1972-1974
Tourism Development Fund	0.38	0.78	6.0	7.5	8		Operating loans: 3 (-----Not applicable-----)			Fixed (1975 to 1981)	1973
National Investment Fund	116.83	240.89	10.5-11.0	12.0	Capital loans: 8 (-----Not applicable-----)		Capital loans: 8 (-----Not applicable-----)			Tied to sub-projects	1974-1975
Time Deposit											
Domestic Currency	.12	.25	12.6-15	12-15.5	1 to 3		No restriction (-----Not applicable-----)			1976	n.a.
Foreign Currency	35.16	72.49	Floating	Variable 4/	1 to 3		No restriction (-----Not applicable-----)			Fixed 6/	n.a.
Sub-total	35.28	72.74									
Total of all domestic currency borrowings	433.59	893.89									
Grand Total of All Borrowings	595.41	1,227.64									

1/ Effective interest rate as of December 31, 1975.

2/ This is Eurodollar loan; a part of the proceeds have been used for domestic currency financing.

3/ Represents inter-bank Eurodollar deposit rate prevailing in London, 6.75% as of September 20, 1976

4/ Presently 10.8% for key industries projects and 12% for other projects.

5/ Includes Industrial Finance Debentures issued for financing under Industrial Rationalization Program.

6/ Repayment periods range from 3 months to 3 years.

EAP Project Department  
September 31, 1976



KOREA  
KOREA DEVELOPMENT BANK  
Summarized Balance Sheets, 1971-1975 <sup>1/</sup>  
(Won in Millions)

	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
<u>ASSETS</u>					
<u>Current Assets</u>					
Cash and bank deposits	9,970	23,500	15,720	23,717	34,584
Securities	398	422	66	7,704	7,017
Current portion of loans and receivables					
from property disposal	31,924	35,459	22,736	62,034	84,237
Accrued interest and guarantee fee	9,704	16,054	16,953	18,117	20,561
Other current assets	5,496	2,747	3,463	4,083	6,044
Total current assets	<u>57,492</u>	<u>78,182</u>	<u>58,938</u>	<u>115,655</u>	<u>152,443</u>
<u>Portfolio</u>					
Domestic currency loans					
Operating loans	33,479	28,728	33,689	53,206	62,434
Capital loans	116,956	199,325	267,285	343,615	471,960
Sub-total	<u>150,435</u>	<u>228,053</u>	<u>300,974</u>	<u>396,821</u>	<u>534,394</u>
Foreign currency loans	7,059	11,080	18,847	32,020	48,983
Total loans	<u>157,494</u>	<u>239,133</u>	<u>319,821</u>	<u>428,841</u>	<u>583,377</u>
less current portion of loans	31,514	35,052	22,181	61,362	82,342
Total loans net of current portion	<u>125,980</u>	<u>204,081</u>	<u>297,640</u>	<u>367,479</u>	<u>501,035</u>
Investments					
Equity shares	48,514	63,262	58,643	65,883	131,595
Debentures	9,114	8,829	8,863	10,076	13,524
Total investments	<u>57,628</u>	<u>72,091</u>	<u>67,506</u>	<u>75,959</u>	<u>145,119</u>
<u>Other Assets</u>					
Receivables from RAO <sup>2/</sup>	9,712	13,572	12,619	12,672	12,001
Receivables from Property Disposal	7,288	14,108	15,734	16,052	16,678
Property and equipment	4,876	5,467	5,332	5,053	5,392
Sub-total	<u>21,876</u>	<u>33,147</u>	<u>33,685</u>	<u>33,777</u>	<u>34,071</u>
less current portion of receivables	410	407	555	672	1,895
Total other assets	<u>21,466</u>	<u>32,740</u>	<u>33,130</u>	<u>33,105</u>	<u>32,176</u>
<u>Total Assets</u>	<u>262,566</u>	<u>387,094</u>	<u>457,214</u>	<u>592,198</u>	<u>830,773</u>

	1971	1972	1973	1974	1975
<b>LIABILITIES AND EQUITY</b>					
<b>Current Liabilities</b>					
Short term deposits	5,214	6,309	5,145	2,489	25,537
Current portion of long-term debt	8,089	18,802	26,113	60,358	84,500
Credit control account	4,721	2,537	3,719	4,189	3,739
Other current liabilities	2,385	4,513	4,401	7,629	34,224
Total current liabilities	<u>20,409</u>	<u>32,161</u>	<u>39,378</u>	<u>74,665</u>	<u>148,000</u>
<b>Long-term Liabilities</b>					
SFD's	-	25,770	27,267	26,726	26,335
Less equivalent cash deposits <sup>1/</sup>	-	25,770	27,267	26,726	26,335
Time deposits					
Domestic currency	20,707	11,863	12,678	7,144	115
Foreign currency	22,241	35,701	37,274	34,392	35,163
Sub-total	<u>42,948</u>	<u>47,564</u>	<u>49,952</u>	<u>41,536</u>	<u>35,278</u>
less current portion of time deposits - net	-	-	2,882	6,258	20,174
time deposits less of current portion	<u>42,948</u>	<u>47,564</u>	<u>47,070</u>	<u>35,278</u>	<u>15,104</u>
Foreign currency borrowings					
Official sources	8,309	11,011	17,894	30,943	36,105
Commercial sources	9,345	9,973	5,961	42,149	47,887
Sub-total	<u>17,654</u>	<u>20,984</u>	<u>23,855</u>	<u>73,092</u>	<u>83,992</u>
Domestic currency borrowings					
Government of Korea	86,254	101,547	116,324	136,580	149,074
Industrial Rationalization fund	-	11,146	29,840	51,112	51,112
Tourism Development fund	-	-	200	380	380
National Investment fund	-	-	-	40,680	116,830
IFD's <sup>4/</sup> in domestic currency	26,367	51,391	79,263	73,425	68,519
Sub-total	<u>112,621</u>	<u>164,084</u>	<u>225,627</u>	<u>302,177</u>	<u>385,915</u>
Total borrowings	130,275	185,068	249,482	375,269	469,907
less current portion of borrowings	8,089	18,802	23,231	54,100	64,326
Total borrowings net of current portion	<u>122,186</u>	<u>166,266</u>	<u>226,251</u>	<u>321,169</u>	<u>405,581</u>
Total long-term liabilities	<u>165,134</u>	<u>213,830</u>	<u>273,321</u>	<u>356,447</u>	<u>420,685</u>
<b>Other Liabilities</b>					
Provision for exchange loss	-	-	341	843	1,193
Other liabilities	410	536	2,405	4,342	7,168
Total other liabilities	<u>410</u>	<u>536</u>	<u>2,746</u>	<u>5,185</u>	<u>8,361</u>
Total Liabilities	<u>185,953</u>	<u>246,527</u>	<u>315,445</u>	<u>436,297</u>	<u>577,046</u>
<b>Outstanding Guarantees</b>					
Domestic currency	15,581	11,251	24,293	64,436	36,723
Foreign currency	584,748	600,049	763,132	1,246,906	1,448,289
Sub-total	<u>600,329</u>	<u>611,300</u>	<u>787,425</u>	<u>1,311,342</u>	<u>1,480,012</u>
Less customers liabilities for guarantees	600,329	611,300	787,425	1,311,342	1,480,012
Net liability for guarantees	-	-	-	-	-
<b>Equity</b>					
Paid-in capital	54,466	110,066	110,612	119,712	203,200
Reserves <sup>2/</sup>	20,607	26,359	30,138	31,935	36,406
Net income for the year	1,540	4,142	1,019	4,254	14,121
Total equity	<u>76,613</u>	<u>140,567</u>	<u>141,769</u>	<u>155,901</u>	<u>253,727</u>
Total Liabilities and Equity	<u>262,566</u>	<u>387,094</u>	<u>457,214</u>	<u>592,198</u>	<u>830,773</u>

<sup>1/</sup> Audited by external auditors, except for 1971.

<sup>2/</sup> Readjustment Corporation.

<sup>3/</sup> This is a fixed deposit against the outstanding balance of Special Finance Debentures and can be used only for the redemption of these debentures.

<sup>4/</sup> Industrial Finance Debentures.

<sup>5/</sup> KDB makes annual provisions for losses on loans and investment, based on the record of write offs over the past five years. In the audited statement these provisions are directly booked against 'Legal Reserves.'

## KOREA

## KOREA DEVELOPMENT BANK

Summarized Cash Flow Statements, 1971-75  
(Won in million)

	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
<u>Sources</u>					
Net income	1,540	4,142	4,549	4,254	14,121
Non cash charges	<u>164</u>	<u>321</u>	<u>1,265</u>	<u>1,854</u>	<u>2,422</u>
Funds from operations	1,704	4,463	5,814	6,108	16,543
Increase in paid in capital in cash	2,405	55,600	200	9,100	13,476
Draw down on foreign currency borrowings	2,959	6,589	7,788	39,076	12,709
Borrowings from:					
Government of Korea	18,226	16,863	17,085	22,769	36,221
NIF	-	-	-	41,566	80,096
IRF	-	11,146	18,694	21,271	-
TDF	-	-	200	180	-
Sub-total	<u>18,226</u>	<u>28,009</u>	<u>25,979</u>	<u>85,786</u>	<u>116,317</u>
Increase (decrease) in deposits	18,406	5,404	254	(10,973)	16,341
Issuances of IFD's					
In domestic currency	15,200	31,396	41,478	23,815	13,744
In foreign currency	-	-	-	<u>9,124</u>	-
Sub-total	<u>15,200</u>	<u>31,396</u>	<u>41,478</u>	<u>23,815</u>	<u>13,744</u>
Sale of investments	6,275	9,342	8,501	3,974	5,029
Collection of loans	15,721	20,411	24,107	36,947	45,251
Sale of property and equipment	-	-	59	207	-
Increase in other liabilities	<u>3,252</u>	<u>3,625</u>	<u>3,280</u>	<u>6,135</u>	<u>8,644</u>
<u>Total Sources</u>	<u>84,148</u>	<u>164,839</u>	<u>127,460</u>	<u>208,799</u>	<u>248,054</u>
<u>Uses</u>					
Increase in property and equipment	362	656	-	-	415
Loan disbursements					
In domestic currency	48,120	114,784	93,161	125,936	182,354
In foreign currency	<u>1,888</u>	<u>4,864</u>	<u>10,520</u>	<u>7,376</u>	<u>17,085</u>
Sub-total	<u>49,008</u>	<u>119,648</u>	<u>103,681</u>	<u>133,312</u>	<u>199,439</u>
New investment	3,713	6,270	3,570	12,427	19,267
Repayment against					
Domestic currency borrowings	970	1,564	2,308	3,404	7,672
Foreign currency borrowings	<u>499</u>	<u>826</u>	<u>5,226</u>	<u>5,912</u>	<u>4,870</u>
Sub-total	<u>1,469</u>	<u>2,390</u>	<u>7,534</u>	<u>9,314</u>	<u>32,540</u>
Redemption of IFD's in domestic currency	17,763	5,699	11,268	27,643	18,026
Increase(decrease) in receivables	(10,849)	(10,682)	(672)	(370)	45
Increase(decrease) in other assets	<u>17,803</u>	<u>27,328</u>	<u>9,859</u>	<u>18,476</u>	<u>(12,548)</u>
<u>Total Uses</u>	<u>79,269</u>	<u>151,309</u>	<u>135,240</u>	<u>200,802</u>	<u>237,186</u>
Increase(decrease) in cash	4,879	13,530	(7,780)	7,997	10,868
Cash Balance beginning of the year	5,091	9,970	23,500	15,720	23,717
Cash Balance at end of the year	9,970	23,500	15,720	23,717	34,585

KOREA DEVELOPMENT BANKSummarized Income Statements, 1971 - 1975 <sup>1/</sup>  
(Won in Million)

	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
<u>INCOME</u>					
<u>Interest Income</u>					
Interest on loans	14,566 <sup>2/</sup>	18,356	22,208	33,005	50,553
Interest on bonds and debentures	766	841	829	781	986
Interest on deposits	<u>416</u>	<u>1,246</u>	<u>3,185</u>	<u>1,049</u>	<u>366</u>
Total interest income	<u>15,748</u>	<u>20,443</u>	<u>26,222</u>	<u>34,835</u>	<u>51,905</u>
<u>Other Income</u>					
Dividend income	750	883	2,356	2,339	2,707
Guarantee commissions	3,064	3,831	3,682	4,757	7,307
Capital gains on sale of investment <sup>3/</sup>	-	257	(2,571)	1,320	1,566
Other income	<u>275</u>	<u>689</u>	<u>411</u>	<u>1,160</u>	<u>1,570</u>
Total other income	<u>4,089</u>	<u>5,660</u>	<u>3,878</u>	<u>9,576</u>	<u>13,150</u>
<u>Total Gross Income</u>	<u>19,837</u>	<u>26,102</u>	<u>30,100</u>	<u>44,411</u>	<u>65,056</u>
<u>EXPENSES</u>					
<u>Financial Expenses</u>					
Interest on: Borrowings from Government	4,325	5,378	6,076	9,482	19,634
Foreign loans & debentures	1,304	1,688	2,681	6,192	7,256
Debentures in domestic currency	5,990	5,371	9,711	8,507	9,382
Deposits	2,729	4,906	5,807	5,868	4,968
Commission and Others	<u>482</u>	<u>506</u>	<u>155</u>	<u>526</u>	<u>405</u>
Total financial expenses	<u>14,830</u>	<u>17,849</u>	<u>23,710</u>	<u>30,535</u>	<u>41,645</u>
<u>Administrative and other expenses</u>					
Personnel expenses	1,661	2,011	2,363	3,890	5,325
Provision for loan loss	585	1,261	1,274	797	245
Provision for foreign exchange loss-net	101	243	341	3,058	424
Other expenses	<u>1,120</u>	<u>596</u>	<u>1,393</u>	<u>1,874</u>	<u>2,144</u>
Total Administrative and other expenses	<u>3,467</u>	<u>4,111</u>	<u>5,371</u>	<u>9,619</u>	<u>8,137</u>
<u>Total Expenses</u>	<u>18,297</u>	<u>21,960</u>	<u>29,081</u>	<u>40,154</u>	<u>49,782</u>
Net income before defense tax	1,540	4,142	1,019	4,257	15,273
Defense tax	-	-	-	-	1,152
<u>NET INCOME</u> <sup>4/</sup>	<u>1,540</u>	<u>4,142</u>	<u>1,019</u>	<u>4,257</u>	<u>14,121</u>

<sup>1/</sup> Audited by external auditors, except for 1971.<sup>2/</sup> Excludes accrued interest and guarantee fee income of W 1,526 million.<sup>3/</sup> The auditors have directly credited capital gains to 'Legal Reserves' and did not show it as part of KDB's normal income during the respective years.<sup>4/</sup> In terms of the provisions of the KDB Act, the entire net income of KDB is transferred to 'Legal Reserves'. The government of Korea which is the sole shareholder of KDB does not receive any dividend.

## KOREA

## KOREA DEVELOPMENT BANK

Condition of Loan and Guarantee Portfolio as of December 31, 1975  
(Won in Million)

	Portfolio Outstanding		Portfolio Affected by Defaults			Amount in Arrears			
	No. <sup>1/</sup> (1)	Amount (2)	No. <sup>2/</sup> (3)	Amount (4)	(4) as % of (2) (5)	Principal (6)	Interest (7)	Total (8)	(8) as % of (2) (9)
<b>A. Loan Portfolio</b>									
Companies under construction or in pre-operating stage not in technical or financial difficulty	15	42,534	-	-	-	-	-	-	-
Companies operating profitably	385	467,024	7	12,119	2.59	141	83	224	0.05
Companies operating at a loss but not in serious technical or financial difficulty	33	43,907	28	2,297	5.23	60	70	130	0.30
Companies facing serious financial or technical difficulties	10	22,683	8	1,905	8.40	393	230	623	2.75
Companies temporarily closed down	3	1,672	1	67	4.01	67	44	111	6.64
Companies under liquidation	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>446</b>	<b>577,820</b>	<b>44</b>	<b>16,388</b>	<b>2.84</b>	<b>661</b>	<b>427</b>	<b>1,088</b>	<b>0.19</b>
<b>B. Guarantee Portfolio</b>									
Companies under construction or in pre-operating stage not in technical or financial difficulty	10	184,232	-	-	-	-	-	-	-
Companies operating profitably	89	1,152,531	-	-	-	-	-	-	-
Companies operating at a loss but not in serious technical or financial difficulty	8	91,868	3	23,291	25.35	1,570	67	1,637	1.78
Companies facing serious financial or technical difficulties	3	32,828	2	8,174	24.89	698	29	727	2.21
Companies temporarily closed down	2	18,072	-	-	-	-	-	-	-
Companies under liquidation	4	481 <sup>2/</sup>	-	-	-	-	-	-	-
<b>Total</b>	<b>116</b>	<b>1,480,012</b>	<b>5</b>	<b>31,465</b>	<b>2.13</b>	<b>2,268</b>	<b>96</b>	<b>2,364</b>	<b>0.16</b>

<sup>1/</sup> Number of companies<sup>2/</sup> Transferred to the Readjustment CorporationEAP Projects Department  
June 15, 1976

KOREAKOREA DEVELOPMENT BANK

Loan and Guarantee Portfolio in Arrears 1972 - 1975  
(Won in Million)

<u>As of December 31</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
<b>A. <u>Loan Portfolio</u></b>				
<u>Loans Outstanding</u>				
Capital loans	210,365	284,781	372,487	515,386
Working capital loans	<u>28,768</u>	<u>33,689</u>	<u>53,206</u>	<u>62,434</u>
Total loans outstanding	239,133	318,470	425,693	577,820
<u>Principal affected by arrears</u>				
Capital loans	N.A.	N.A.	2,897	11,499
(as % of capital loans outstanding)	-	-	(0.8)	(2.2)
Working Capital loans	N.A.	N.A.	1,483	4,889
(as % of working capital loans outstanding)	-	-	(2.8)	(7.8)
Total principal affected	<u>15,223</u>	<u>12,233</u>	<u>4,380</u>	<u>16,388</u>
(as % of total principal outstanding)	(6.4)	(3.8)	(1.0)	(2.8)
<u>Arrears on capital loans</u>				
Principal in arrears	889	578	158	240
Interest in arrears	<u>394</u>	<u>581</u>	<u>168</u>	<u>307</u>
Total arrears on capital loans	1,283	1,159	326	547
(as % of capital loans outstanding)	(0.6)	(0.4)	(0.1)	(0.1)
<u>Arrears on working capital loans</u>				
Principal in arrears	1,068	1,161	430	421
Interest in arrears	<u>523</u>	<u>407</u>	<u>117</u>	<u>120</u>
Total arrears on working capital loans	1,591	1,568	547	541
(as % of working capital loans outstanding)	(5.5)	(4.7)	(1.0)	(0.9)
<u>Total arrears of principal and interest</u>	<u>2,874</u>	<u>2,727</u>	<u>873</u>	<u>1,088</u>
(as % of total loans outstanding)	(1.2)	(0.9)	(0.2)	(0.2)
<b>B. <u>Guarantee Portfolio</u></b>				
Total guarantees outstanding	611,300	787,425	1,311,342	1,480,012
Outstanding guarantees affected by arrears	13,073	804	16,644	31,465
(as % of guarantee portfolio)	(2.1)	(0.1)	(1.3)	(2.1)
Principal in arrears	-	-	-	2,268
Fees in arrears	<u>103</u>	<u>55</u>	<u>58</u>	<u>96</u>
Total arrears	103	55	58	2,364
(as % of guarantee portfolio)	(-)	(-)	(-)	(0.2)

## KOREA

## KOREA DEVELOPMENT BANK

Analysis of Loans in Arrears, 1972 - 1975  
(Won in Million)

	As of Dec. 31, 1972				As of Dec. 31, 1973				As of Dec. 31, 1974				As of Dec. 31, 1975			
	Portfolio affected		Amount in arrear		Portfolio affected		Amount in arrear		Portfolio affected		Amount in arrear		Portfolio affected		Amount in arrear	
	No. <sup>1/</sup>	Amount	Prin- cipal	Inter- est	No. <sup>1/</sup>	Amount	Prin- cipal	Inter- est	No. <sup>1/</sup>	Amount	Prin- cipal	Inter- est	No. <sup>1/</sup>	Amount	Prin- cipal	Inter- est
<b>I. Length of Arrears</b>																
Less than 3 months	48	9,141	966	379	51	5,006	560	124	69	3,102	548	239	22	13,615	520	342
3 - 6 months	18	3,183	254	85	19	2,136	170	49	29	997	35	42	10	2,041	75	48
6 - 12 months	16	1,069	441	262	14	776	5	4	10	281	4	4	6	595	48	25
1 - 2 years	7	930	209	119	7	2,407	522	495	-	-	-	-	6	137	18	12
More than 2 years	2	900	86	72	7	1,908	481	316	-	-	-	-	-	-	-	-
<b>Total</b>	<b>91</b>	<b>15,223</b>	<b>1,956</b>	<b>917</b>	<b>98</b>	<b>12,233</b>	<b>1,738</b>	<b>988</b>	<b>108</b>	<b>4,380</b>	<b>587</b>	<b>285</b>	<b>44</b>	<b>16,388</b>	<b>661</b>	<b>427</b>
<b>II. Sector</b>																
Government sector	3	230	59	265	11	1,931	2	34	-	-	-	-	1	19	1	10
Private sector	88	14,993	1,897	652	87	10,302	1,736	954	108	4,380	587	285	43	16,369	660	417
<b>Total</b>	<b>91</b>	<b>15,223</b>	<b>1,956</b>	<b>917</b>	<b>98</b>	<b>12,233</b>	<b>1,738</b>	<b>988</b>	<b>108</b>	<b>4,380</b>	<b>587</b>	<b>285</b>	<b>44</b>	<b>16,388</b>	<b>661</b>	<b>427</b>
<b>III. Type of Industry</b>																
<b>A. Manufacturing Industries</b>																
Food, Beverage & Tobacco	3	596	81	18	-	-	-	-	5	1,236	396	16	2	2,878	16	73
Textile, Wearing Apparel and Leather	12	3,471	103	41	4	466	76	17	5	86	6	37	3	495	77	52
Wood, Wood Products and Furniture	2	1,876	986	363	14	3,935	851	636	1	235	67	-	-	-	-	-
Paper & Paper Products	2	237	45	58	2	707	41	73	3	-	20	-	-	-	-	-
Printing & Publishing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Chemical, Rubber & Plastic	-	-	-	-	1	47	1	5	2	288	14	5	1	397	15	23
Petroleum & Coal	1	365	27	10	-	-	-	-	-	-	-	-	1	79	21	10
Non-metallic Mineral Products	-	-	-	-	5	287	116	105	-	-	-	-	3	807	118	3
Basic Metals	2	865	46	223	-	-	-	-	-	-	-	-	4	1,870	46	64
Fabricated Metal Products, Machinery(excluding electrical)	3	817	101	37	10	2,346	525	97	20	1,003	37	167	3	930	66	34
Electrical Equipment	1	931	89	26	-	-	-	-	-	-	-	-	-	-	-	-
Transport Equipment	1	48	3	-	-	-	-	-	-	-	-	-	4	1,442	-	30
Others	10	2,731	173	26	3	329	5	1	3	469	4	2	1	4,566	195	73
<b>Sub-total Manufacturing</b>	<b>37</b>	<b>11,937</b>	<b>1,654</b>	<b>802</b>	<b>39</b>	<b>8,117</b>	<b>1,615</b>	<b>934</b>	<b>39</b>	<b>3,317</b>	<b>544</b>	<b>227</b>	<b>22</b>	<b>13,464</b>	<b>554</b>	<b>362</b>
<b>B. Non-Manufacturing Industries</b>																
Agriculture, Forestry & Fishery	-	-	-	-	-	-	-	-	4	67	9	6	1	268	9	5
Mining & Quarrying	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Electricity, Gas & Waterworks	-	-	-	-	-	-	-	-	3	75	-	3	-	-	-	-
Construction	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transportation	51	2,356	215	67	45	1,946	19	10	56	696	30	23	16	484	16	17
Financing & Insurance	-	-	-	-	7	1,638	80	34	1	9	-	4	-	-	-	-
Hotel & Tourism	-	-	-	-	-	-	-	-	5	216	4	22	4	1,843	81	33
Others	3	930	87	48	7	532	24	10	-	-	-	-	1	329	1	10
<b>Sub-total Non-Mfg.</b>	<b>54</b>	<b>3,286</b>	<b>302</b>	<b>115</b>	<b>59</b>	<b>4,116</b>	<b>123</b>	<b>54</b>	<b>69</b>	<b>1,063</b>	<b>43</b>	<b>58</b>	<b>22</b>	<b>2,924</b>	<b>107</b>	<b>65</b>
<b>GRAND TOTAL</b>	<b>91</b>	<b>15,223</b>	<b>1,956</b>	<b>917</b>	<b>98</b>	<b>12,233</b>	<b>1,738</b>	<b>988</b>	<b>108</b>	<b>4,380</b>	<b>587</b>	<b>285</b>	<b>44</b>	<b>16,388</b>	<b>661</b>	<b>427</b>

<sup>1/</sup> Number of companies.KAP Projects Department  
June 15, 1976

## KOREA

## KOREA DEVELOPMENT BANK

## Analysis of Guarantees in Arrears, 1972-1975

(Won in Million)

	As of Dec. 31, 1972				As of Dec. 31, 1973				As of Dec. 31, 1974				As of Dec. 31, 1975			
	Portfolio affected		Amount in arrear		Portfolio affected		Amount in arrear		Portfolio affected		Amount in arrear		Portfolio affected		Amount in arrear	
	No. 1/	Amount	Prin- cipal	Inter- est	No. 1/	Amount	Prin- cipal	Inter- est	No. 1/	Amount	Prin- cipal	Inter- est	No. 1/	Amount	Prin- cipal	Inter- est
I. <u>Length of arrears</u>																
Less than 3 months	5	13,073	-	103	2	804	-	55	1	16,644	-	58	4	30,269	2,129	94
3 - 6 months	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6 - 12 months	-	-	-	-	-	-	-	-	-	-	-	-	1	1,196	139	2
1 - 2 years	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
More than 2 years	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<u>Total</u>	<u>5</u>	<u>13,073</u>	<u>-</u>	<u>103</u>	<u>2</u>	<u>804</u>	<u>-</u>	<u>55</u>	<u>1</u>	<u>16,644</u>	<u>-</u>	<u>58</u>	<u>5</u>	<u>31,465</u>	<u>2,268</u>	<u>96</u>
II. <u>Sector</u>																
Government Sector	2	5,813	-	62	-	-	-	-	-	-	-	-	1	4,195	536	11
Private Sector	3	7,260	-	41	2	804	-	55	1	16,644	-	58	4	27,270	1,732	85
<u>Total</u>	<u>5</u>	<u>13,073</u>	<u>-</u>	<u>103</u>	<u>2</u>	<u>804</u>	<u>-</u>	<u>55</u>	<u>1</u>	<u>16,644</u>	<u>-</u>	<u>58</u>	<u>5</u>	<u>31,465</u>	<u>2,268</u>	<u>96</u>
III. <u>Type of Industry</u>																
A. <u>Manufacturing Industries</u>																
Food, Beverage & Tobacco	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Textile, Wearing Apparel & Leather	2	1,864	-	29	1	477	1	54	-	-	-	-	1	171	15	2
Wood, Wood Products & Furniture	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Printing and Publishing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Chemical, Rubber & Plastics	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Petroleum & Coal	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Non-metallic Mineral Products	1	5,396	-	12	-	-	-	-	-	-	-	-	-	-	-	-
Basic Metals	1	1,303	-	33	-	-	-	-	-	-	-	-	-	-	-	-
Fabricated Metal Products, Machinery (excluding electrical)	-	-	-	-	-	-	-	-	1	16,644	-	58	2	25,903	1,578	81
Electrical Machinery	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transporting Equipment	-	-	-	-	1	327	-	1	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-	-	1	1,196	139	2
<u>Sub-total</u>	<u>4</u>	<u>8,563</u>	<u>-</u>	<u>74</u>	<u>2</u>	<u>804</u>	<u>-</u>	<u>55</u>	<u>1</u>	<u>16,644</u>	<u>-</u>	<u>58</u>	<u>4</u>	<u>27,270</u>	<u>1,732</u>	<u>85</u>
B. <u>Non-manufacturing Industries</u>																
Agriculture, Forestry & Fishery	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Mining & Quarrying	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Electricity, Gas & Waterworks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Construction	1	4,510	-	29	-	-	-	-	-	-	-	-	1	4,195	536	11
Transportation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Financing & Insurance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Hotel & Tourism	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<u>Sub-total</u>	<u>1</u>	<u>4,510</u>	<u>-</u>	<u>29</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1</u>	<u>4,195</u>	<u>536</u>	<u>11</u>
<u>GRAND TOTAL</u>	<u>5</u>	<u>13,073</u>	<u>-</u>	<u>103</u>	<u>2</u>	<u>804</u>	<u>-</u>	<u>55</u>	<u>1</u>	<u>16,644</u>	<u>-</u>	<u>58</u>	<u>5</u>	<u>31,465</u>	<u>2,268</u>	<u>96</u>

1/ Number of companies.

EAP Projects Department  
June 15, 1976



## KOREA DEVELOPMENT BANK

## Economic and Financial Rates of Return on a Sample of KDB Financed Projects

NOT COMPLETED		Type of Industry	Type of Project <sup>1/</sup>	Capacity	Size of Assets of Company <sup>2/</sup> \$'000	Shares of Export In Output (%)	Project Cost		Share Of KDB Financing %	Internal Rate of Return		Total Cost per Job \$'000
							Local \$'000	Foreign \$'000		Financial %	Economic %	
1	Daedong Chemical Company	Synthetic leather and shoes	E	4,105 Km synthetic leather 570,000 pairs of shoes	10,614	60	1,196	1,290	51.8	31.4	53.5	8
2	Gold Star Tele-Communication Co	Machinery	E	98,000 sets telephone	25,064	9	2,928	1,411	32.5	43.6	46.9	5
3	Samyang Tire Company	Rubber	E	150,800 sets of tire	40,841	58	19,266	4,000	17.1	30.1	46.3	69
4	Dong Yang Warner Company	Machinery	E	27,600 set steering sets 36,000 set Propellor shaft	7,866	-	1,881	1,544	45.0	48.2	45.7	19
5	Korea Integrated Special Steel Co.	Basic Metal	E	53,000 M/T Special Steel	54,847	85	23,002	14,560	5.3	17.9	45.5	35
6	Korea Synthetic Rubber Company	Others	E	7,000 M/T SBR	15,682	-	3,384	1,166	25.6	29.5	41.1	152
7	Tong Myung Industries Company	Machinery	N	28,000 Oil Hydraulic Equipment	15,498	-	2,851	2,208	40.1	30.4	35.6	11
8	Gold Star Cable Company	Metal	E	4,260 M/T Electric Wire and Cable	34,176	100	18,612	5,625	16.5	19.8	30.5	80
9	Kangwon Industries Company	Metal	N	5,000 M/T Rolled Steel	71,877	-	6,486	4,000	38.1	17.9	29.8	43
10	Pusan Steel Company	Metal	E	19,000 M/T Steel Ingot & Casting 8,400 Steel Forging	10,272	79	7,309	2,882	28.2	16.0	26.6	8
11	Korea Integrated Special Steel Company	Basic Metal	E	4,500 M/T Stainless Steel Sheet and Coils	29,472	56	12,553	20,599	17.6	15.9	26.3	59
12	Dae Woo Machinery Company	Machinery	N	1,360 Set Machine Tools	7,317	-	2,351	4,313	59.7	19.9	25.6	60
13	Orient Brewery Company	Others	E	2,700 Thousand c/s beer	42,395	0.3	18,776	6,437	9.1	13.6	25.6	82
14	Joong Ang Shipping Company	Transportation	E	15,376 DWT	3,987	n.a.	257	4,000	69.2	20.9	22.9	133
15	Samyang Shipping Company	Transportation	E	7,010 DWT	4,041	n.a.	406	3,000	88.0	22.3	21.8	100
16	Dong Sue Shipping Company	Transportation	E	16,159 DWT	10,913	n.a.	1,052	3,300	68.9	22.6	21.8	106
17	Sam Ick Lines Company	Transportation	E	20,000 DWT	11,716	n.a.	173	6,000	64.7	19.8	21.7	162
18	Heung-A Shipping Company	Transportation	E	7,000 DWT	9,467	n.a.	2,464	1,132	53.5	21.6	21.0	109
19	Nam Yang Shipping Company	Transportation	E	10,326 DWT	2,062	n.a.	322	3,950	73.7	17.7	18.2	127
20	Ssangyong Shipping Company	Transportation	E	15,000 DWT	20,541	n.a.	333	4,100	90.2	19.8	17.3	143
21	Sam Ick Line Company	Transportation	E	23,196 DWT	5,909	n.a.	178	6,750	57.8	17.1	16.4	177
22	Kuk Je Shipping Company	Transportation	E	13,945 DWT	7,200	n.a.	83	3,500	97.6	17.2	15.9	93
23	Dong Yang Express Ferry Company	Transportation	N	2,280 G/T	343	n.a.	821	2,700	76.6	27.9	15.4	35
COMPLETED												
1	Orient Precision Company	Electronics	E	5,827 telephone switch-boards	6,054	-	379	204	35.0	21.1	46.8	22.4
2	Dong Yang Warner Company	Metal	E	192M/T ring gears and pinion sets	1,682	-	29	179	86.0	30.0	45.0	4.6
3	Bookook Steel and Wire Company	Metal	E	720 M/T Aircraft Cable	1,464	100	263	182	40.0	24.0	34.6	5.4
4	Sam Kyung Trading Company	Textile	E	260,000 yards polyester jersey	2,933	65	224	162	42.0	25.2	26.5	25.7
5	Daejung Commercial Company	Textile	N	612 M/T Stretched Yarn	248	100	137	617	81.8	18.4	25.8	17.2
6	Hyun Dai Wool Textile Company	Textile	E	2,364 accrylic yarn	2,028	100	1,126	1,759	37.2	17.6	25.5	5.5
7	Sam-ah Aluminium Company	Metal	E	992 M/T aluminium foil 172,000 R/L aluminium foil paper	443	32	1,819	876	25.0	24.0	23.9	-
8	Tai Han Electric Wire Company	Metal	E	323 M/T electric wire	3,910	32	497	557	55.0	21.9	23.1	35.1
9	Yechun Filature Company	Textile	N	57,566 kg silk yarn	4,053	100	230	119	34.0	9.6	22.1	-
10	Dae Han Pulp Incorporated	Paper	E	1,450 M/T corrugated manila board paper	2,190	36	150	108	42.0	21.6	18.9	4.8
1/ New (N) or Expansion (E) 2/ Size of Assets of Company at Time of Application												

AEP Projects Department  
June 15, 1976

## KOREA DEVELOPMENT BANK

Forecast of Approvals, Commitments and Disbursements, 1976 - 1980  
(Won in Million)

<u>Year ending December 31</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
<u>Approvals</u>					
Domestic currency loans	192,276	234,263	284,101	346,455	421,098
Domestic currency investments	32,518	18,000	20,000	22,000	24,000
Foreign currency loans	32,727	36,230	37,895	43,505	45,120
<u>Total approvals</u>	<u>257,521</u>	<u>288,493</u>	<u>341,996</u>	<u>411,960</u>	<u>490,218</u>
<u>Commitments</u>					
Domestic currency:					
92% of current year's loan approvals	176,894	215,522	261,373	318,738	387,410
8% of previous year's loan approvals	11,627 <sup>1/</sup>	15,382	18,741	22,728	27,716
96% of current year's investment approvals	31,218	17,280	19,200	21,120	23,040
4% of previous year's investment approvals	217 <sup>1/</sup>	1,300	720	800	880
<u>Total commitments of domestic currency approvals</u>	<u>219,956</u>	<u>249,484</u>	<u>300,034</u>	<u>363,386</u>	<u>439,046</u>
Foreign currency:					
96% of current year's loan approvals	31,418	34,781	36,379	41,765	43,315
4% of previous year's loan approvals	1,026 <sup>1/</sup>	1,309	1,449	1,556	1,740
<u>Total commitments of foreign currency approvals</u>	<u>32,444</u>	<u>36,090</u>	<u>37,828</u>	<u>43,281</u>	<u>45,055</u>
<u>Total commitments</u>	<u>252,400</u>	<u>285,574</u>	<u>337,862</u>	<u>406,667</u>	<u>484,101</u>
<u>Disbursements</u>					
Domestic currency:					
100% of current year's loan commitments <sup>2/</sup>	188,521	230,904	280,114	341,466	415,126
100% of current year's investment commitments	31,435	18,580	19,920	21,920	23,920
<u>Total disbursements in domestic currency</u>	<u>219,956</u>	<u>249,484</u>	<u>300,034</u>	<u>363,386</u>	<u>439,046</u>
<u>Year ending December 31</u>					
Foreign currency:					
50% of current year's commitments	16,222	18,045	18,914	21,641	22,528
50% of previous year's commitments	29,426 <sup>3/</sup>	16,222	18,045	18,914	21,640
<u>Total disbursements in foreign currency</u>	<u>45,648</u>	<u>34,267</u>	<u>36,959</u>	<u>40,555</u>	<u>44,168</u>
<u>Total disbursements</u>	<u>265,604</u>	<u>283,751</u>	<u>336,993</u>	<u>403,941</u>	<u>483,214</u>

1/ Actual uncommitted approvals from 1975.

2/ The allocation of annual disbursements of domestic currency loans to operating loans and capital loans are assumed as follows, based on the past tendency:

<u>Source</u>	<u>Operating loans</u>	<u>Capital loans</u>
General loans	30%	70%
National Investment Fund Loans	10%	90%
Industrial Rationalization Fund Loans	50%	50%

3/ Actual undisbursed commitments from 1975

## KOREA DEVELOPMENT BANK

Borrowings Program to Meet Forecast Commitments, 1976 - 1980  
(Won in Million)

<u>Year ending December 31</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
<u>Domestic Currency Borrowings</u>					
Borrowings from Government	36,134	35,000	35,000	35,000	35,000
National Investment Fund	98,700	115,439	138,528 <sup>2/</sup>	166,712 <sup>2/</sup>	198,900 <sup>2/</sup>
Industrial Finance Debentures	40,000	20,000 <sup>2/</sup>	25,000	25,000 <sup>2/</sup>	25,000 <sup>2/</sup>
<u>Total</u>	<u>174,834</u>	<u>170,439</u>	<u>198,528</u>	<u>226,712</u>	<u>258,900</u>
<u>Foreign Currency Borrowings</u>					
IBRD	38,800 (\$80 Mil)	-	48,500 (\$100 Mil)	-	48,500 (\$100 Mil)
ADB	-	24,250 (\$50 mil.)	-	29,100 (\$60 mil.)	-
KFW	3,800 (DM20 mil.)	-	3,800 (DM20 mil.)	-	3,800 (DM20 mil.)
Foreign commercial banks	24,250 <sup>3/</sup> (\$25 mil.)	24,250 (\$50 mil.)	24,250 (\$50 mil.)	24,250 (\$50 mil.)	24,250 (\$50 mil.)
Industrial Finance Debentures-aborad <sup>3/</sup>	12,125 (\$25 mil.)	24,250 (\$50 mil.)	24,250 (\$50 mil.)	24,250 (\$50 mil.)	24,250 (\$50 mil.)
<u>Total</u>	<u>78,975</u>	<u>72,750</u>	<u>100,800</u>	<u>77,600</u>	<u>100,800</u>
<u>Grand Total</u>	<u>253,809</u>	<u>243,191</u>	<u>299,328</u>	<u>304,312</u>	<u>359,700</u>

<sup>1/</sup> Borrowings in this annex are shown on the basis of amounts contracted, not on the basis of actual draw-downs. However, in the case of domestic currency borrowings, contracted amounts and draw-downs will be equal.

<sup>2/</sup> Indicates the issuance of Industrial Finance Debentures only for redemption of existing debentures.

<sup>3/</sup> In addition to amount shown, an additional borrowing of about US\$50 million is under consideration and is expected to materialize during the next few months.

EAP Projects Department  
May 6, 1976

KOREA  
KOREA DEVELOPMENT BANK

ANNEX 29  
Page 1

Projected Balance Sheets, 1976 - 1980  
(Won in Million)

	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
<u>As of December 31</u>					
<u>Assets</u>					
<u>Current Assets</u>					
Cash and Deposits	40,147	60,196	69,243	58,813	29,632
Current portion of long-term loans	92,245	113,298	140,163	173,034	209,636
Current portion of receivables from property disposal	3,348	3,139	3,548	3,958	3,986
Accrued interest and guarantee fee receivable	23,154	28,677	35,128	42,760	46,723
Other current assets	<u>13,500</u>	<u>14,000</u>	<u>14,500</u>	<u>15,000</u>	<u>15,500</u>
Total current assets	<u>172,394</u>	<u>219,310</u>	<u>262,582</u>	<u>293,565</u>	<u>305,477</u>
<u>Portfolio</u>					
Domestic currency loans:					
Operating loans	60,078	72,305	88,757	108,720	132,514
(Current portion thereof)	(35,304)	(41,134)	(50,255)	(61,917)	(76,263)
Capital loans	579,589	713,170	872,788	1,065,755	1,298,616
(Current portion thereof)	<u>(49,802)</u>	<u>(62,910)</u>	<u>(78,281)</u>	<u>(96,554)</u>	<u>(118,240)</u>
	554,571	681,431	833,009	1,016,004	1,236,627
Foreign currency loans	89,205	116,333	144,038	172,966	202,571
(Current portion thereof)	<u>(7,139)</u>	<u>(9,254)</u>	<u>(11,627)</u>	<u>(14,563)</u>	<u>(15,133)</u>
	82,066	107,079	132,411	158,403	187,438
Total loans (Net of current portion)	636,637	788,510	965,420	1,174,407	1,424,065
Less: Provision for doubtful loans	<u>1,300</u>	<u>1,300</u>	<u>1,300</u>	<u>1,347</u>	<u>1,634</u>
<u>Net loans (Net of current portion)</u>	<u>635,337</u>	<u>787,210</u>	<u>964,120</u>	<u>1,173,060</u>	<u>1,422,431</u>
Investments:					
Equity shares	152,135	157,654	162,599	167,161	171,978
Debentures/Bonds	<u>15,552</u>	<u>18,113</u>	<u>20,588</u>	<u>22,946</u>	<u>24,049</u>
Total investments	<u>167,687</u>	<u>175,767</u>	<u>183,187</u>	<u>190,107</u>	<u>196,027</u>
Receivables from property disposal (Net of current portion)	24,302	23,780	23,479	23,501	24,366
Other fixed assets and deferred A/C	8,306	10,306	11,306	12,036	13,306
Property and equipment (Net)	5,968	8,625	11,858	14,561	16,218
<u>Total Assets</u>	<u>1,013,994</u>	<u>1,224,998</u>	<u>1,456,532</u>	<u>1,707,100</u>	<u>1,977,825</u>
<u>Liabilities and equity</u>					
<u>Liabilities</u>					
<u>Current Liabilities</u>					
Deposits (Short-term)	15,500	16,000	16,500	17,000	17,500
Credit control account	4,113	4,524	4,976	5,474	6,021
Employee retirement liability	5,000	6,000	7,000	8,000	9,000
Current maturities of long-term debts	78,613	92,502	113,015	139,138	175,726
Other current liabilities	<u>19,500</u>	<u>20,500</u>	<u>21,000</u>	<u>22,000</u>	<u>23,000</u>
Total current liabilities	<u>122,726</u>	<u>139,526</u>	<u>162,491</u>	<u>191,612</u>	<u>231,247</u>
<u>Long-term liabilities</u>					
Special Finance Debentures (SFD)	23,335	20,335	17,335	14,335	11,335
Deduct: Equivalent cash deposit	<u>23,335</u>	<u>20,335</u>	<u>17,335</u>	<u>14,335</u>	<u>11,335</u>
Net liability for SFD	-	-	-	-	-

	1976	1977	1978	1979	1980
<u>As of December 31</u>					
Deposits:					
Domestic currency	500	1,000	1,500	2,000	2,500
Foreign currency	14,989	2,904	968	-	-
(Current maturities thereof)	(12,085)	(1,936)	(968)	( - )	( - )
Total Deposits (Net of current portion)	<u>3,404</u>	<u>1,968</u>	<u>1,500</u>	<u>2,000</u>	<u>2,500</u>
Foreign currency borrowings:					
International organizations	78,445	108,826	140,579	173,205	206,981
(Current maturities thereof)	(3,886)	(5,206)	(7,929)	(10,392)	(10,962)
Foreign commercial banks	62,970	82,057	97,680	106,375	108,142
(Current maturities thereof)	(5,163)	(8,627)	(15,555)	(22,483)	(25,947)
Total foreign currency borrowings (Net of current portion)	<u>132,366</u>	<u>177,050</u>	<u>214,775</u>	<u>246,705</u>	<u>278,214</u>
Industrial Finance Debentures:					
Domestic currency	61,782	59,934	56,826	56,826	56,826
(Current maturities thereof)	(21,848)	(28,108)	(25,000)	(25,000)	(25,000)
Foreign currency	21,292	45,542	69,792	94,042	117,373
(Current maturities thereof)	( - )	( - )	( - )	( 919)	(13,169)
Total Industrial Finance Debentures (Net of current portion)	<u>61,226</u>	<u>77,368</u>	<u>101,618</u>	<u>124,949</u>	<u>135,236</u>
Borrowings from:					
Government	180,759	210,366	238,926	266,797	294,046
(Current maturities thereof)	(5,393)	(6,440)	(7,129)	(7,751)	(8,951)
Industrial Rationalization Fund	53,406	50,550	48,432	45,961	43,072
(Current maturities thereof)	(2,856)	(2,118)	(2,471)	(2,889)	(3,279)
Tourism Development Fund	380	340	273	206	139
(Current maturities thereof)	( 40)	( 67)	( 67)	( 67)	( 67)
National Investment Fund	200,607	288,704	387,232	500,048	629,311
(Current maturities thereof)	(27,342)	(40,000)	(53,896)	(69,637)	(87,557)
Total domestic currency borrowings (Net of current portion)	<u>399,521</u>	<u>501,335</u>	<u>611,300</u>	<u>732,668</u>	<u>866,714</u>
Other long-term liabilities	5,500	6,500	7,500	9,000	12,000
Total long-term liabilities (Net of current portion)	<u>602,017</u>	<u>764,221</u>	<u>935,693</u>	<u>1,115,322</u>	<u>1,294,664</u>
<u>Total liabilities</u>	<u>724,743</u>	<u>903,747</u>	<u>1,099,184</u>	<u>1,306,934</u>	<u>1,525,911</u>
Outstanding guarantees:					
Long-term guarantees:					
Public sector	1,378,573	1,654,288	1,985,146	2,382,175	2,858,610
Private sector	<u>320,304</u>	<u>384,365</u>	<u>461,238</u>	<u>553,486</u>	<u>664,183</u>
Total long-term guarantees	1,698,877	2,038,653	2,446,384	2,935,661	3,522,793
Short-term guarantees	77,134	92,561	111,073	133,288	159,946
Total guarantees	<u>1,776,011</u>	<u>2,131,214</u>	<u>2,557,457</u>	<u>3,067,949</u>	<u>3,682,739</u>
Deduct: Customer's liabilities for guarantees	<u>1,776,011</u>	<u>2,131,214</u>	<u>2,557,457</u>	<u>3,067,949</u>	<u>3,682,739</u>
Net liabilities for guarantees	-	-	-	-	-
<u>Equity</u>					
Paid-in capital	224,942	239,942	256,942	276,942	300,000
Reserve and retained earnings	64,309	81,309	100,406	123,224	151,914
Total equity	<u>289,251</u>	<u>321,251</u>	<u>357,348</u>	<u>400,166</u>	<u>451,914</u>
<u>Total liabilities and equity</u>	<u>1,013,994</u>	<u>1,224,998</u>	<u>1,456,532</u>	<u>1,707,100</u>	<u>1,977,825</u>

KOREAKOREA DEVELOPMENT BANKProjected Income Statements, 1976 - 1980  
(Won in Million)

<u>For the year ended December 31</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
<u>Income</u>					
Interests on:					
Domestic currency loans	57,822	71,423	88,397	108,837	133,207
Foreign currency loans	<u>6,909</u>	<u>10,277</u>	<u>13,019</u>	<u>15,850</u>	<u>18,777</u>
Total interests on loans	64,731	81,700	101,416	124,687	151,984
Interests on municipal & corporate debentures	1,204	1,392	1,601	1,802	1,945
Interests on special deposits for special finance debentures	3,104	2,729	2,354	1,979	1,604
Dividends on stocks	4,966	5,423	5,607	5,764	5,937
Guarantee fees	8,140	9,768	11,722	14,064	16,877
Capital gains on sale of investments	1,100	1,200	1,300	1,400	1,500
Other income	1,600	1,700	1,800	1,900	2,000
<u>Total Income</u>	<u>84,745</u>	<u>103,912</u>	<u>125,800</u>	<u>151,596</u>	<u>181,847</u>
<u>Expenses</u>					
Interests on:					
Domestic currency borrowings	40,413	51,266	62,859	76,042	91,179
Foreign currency borrowings	12,322	18,748	25,474	31,831	37,462
Deposits	<u>5,149</u>	<u>2,892</u>	<u>2,263</u>	<u>2,175</u>	<u>2,243</u>
Total interest expenses	<u>57,884</u>	<u>72,906</u>	<u>90,596</u>	<u>110,048</u>	<u>130,884</u>
Other financial expenses	619	574	614	664	764
Salaries & other personnel expenses	6,217	7,267	8,509	9,978	11,717
Other administrative and general expenses	2,240	2,576	2,962	3,406	3,917
Bad debts/provision for doubtful loans	800	-	-	47	287
Other expenses	1,500	1,700	1,900	2,100	2,400
<u>Total expenses</u>	<u>69,260</u>	<u>85,023</u>	<u>104,581</u>	<u>126,243</u>	<u>149,969</u>
Net profit before National Defense Tax	15,585	18,889	21,219	25,353	31,878
National Defense Tax	1,558	1,889	2,122	2,535	3,188
<u>Net Profit Tax</u>	<u>14,027</u>	<u>17,000</u>	<u>19,097</u>	<u>22,818</u>	<u>28,690</u>

KOREA  
KOREA DEVELOPMENT BANK  
Projected Cash Flow Statement, 1976 - 1980  
(Won in Million)

Sources	1976	1977	1978	1979	1980
Net Income	14,027	17,000	19,097	22,818	28,690
Add: Non-Cash Charges	1,917	1,143	1,167	1,244	1,520
Increase in Capital	21,742	15,000	17,000	20,000	23,058
Draw-down on Foreign Currency Borrowings	69,898	58,517	61,209	64,805	68,418
(Public Loans)	(45,648)	(34,267)	(36,959)	(40,555)	(44,168)
(Foreign Commercial Bank Loans)	(24,250)	(24,250)	(24,250)	(24,250)	(24,250)
Increase in domestic currency borrowings from:	134,834	150,439	173,528	201,712	233,900
(Government)	(36,134)	(35,000)	(35,000)	(35,000)	(35,000)
(National Investment Fund)	(98,700)	(115,439)	(138,528)	(166,712)	(198,900)
Increase in Long-term Deposits	385	500	500	500	500
Issuance of Industrial Finance Debentures	52,125	44,250	49,250	49,250	49,250
(Domestic Currency)	(40,000)	(20,000)	(25,000)	(25,000)	(25,000)
(Foreign Currency)	(12,125)	(24,250)	(24,250)	(24,250)	(24,250)
Decrease in Investments	8,867	10,500	12,500	15,000	18,000
Increase in current liabilities	-	1,911	1,452	1,998	2,047
Collections against:	83,106	92,245	113,298	140,163	173,034
(Domestic currency operating loans)	(38,655)	(35,304)	(41,134)	(50,255)	(61,917)
(Domestic currency capital loans)	(39,025)	(49,802)	(62,910)	(78,281)	(96,554)
(Foreign currency loans)	(5,426)	(7,139)	(9,254)	(11,627)	(14,563)
Decrease in Receivables from Property Disposal	3,109	3,348	3,139	3,548	3,958
Increase in other liabilities	1,401	1,000	1,000	1,500	3,000
<b>Total Sources</b>	<b>391,411</b>	<b>395,853</b>	<b>453,140</b>	<b>522,538</b>	<b>605,375</b>
Uses					
Increase in Property & Equipment	700	2,800	3,400	2,900	1,890
Disbursements of Loans	234,169	265,171	317,073	382,021	459,294
(Domestic currency loans)	(188,521)	(230,904)	(280,114)	(341,466)	(415,126)
(Foreign currency loans)	(45,648)	(34,267)	(36,959)	(40,555)	(44,168)
Net Investments	31,435	18,580	19,920	21,920	23,920
Repayment:	35,849	44,680	62,458	87,047	113,219
Against domestic currency borrowings from:	32,541	35,631	48,625	63,563	80,344
(Government)	(4,449)	(5,393)	(6,440)	(7,129)	(7,751)
(National Investment Fund)	(14,923)	(27,342)	(40,000)	(53,896)	(69,637)
(Industrial Rationalization Fund)	(13,169)	(2,856)	(2,118)	(2,471)	(2,889)
(Tourism Development Fund)	( - )	( 40 )	( 67 )	( 67 )	( 67 )
Against foreign currency borrowing from:	3,308	9,049	13,833	23,484	32,875
(Public loans)	(3,308)	(3,886)	(5,206)	(7,929)	(10,392)
(Foreign banks Loans)	( - )	(5,163)	(8,627)	(15,555)	(22,483)
Redemption of:	51,449	33,933	30,044	25,968	25,919
Industrial Finance Debentures:	31,275	21,848	28,108	25,000	25,919
(Domestic currency)	(31,275)	(21,848)	(28,108)	(25,000)	(25,000)
(Foreign currency)	( - )	( - )	( - )	( - )	( 919 )
Foreign currency deposits	20,174	12,085	1,936	968	-
Increase in current assets	3,040	6,023	6,951	8,132	4,463
Decrease in current liabilities	24,386	-	-	-	-
Increase in Receivables from property disposal	2,080	2,617	3,247	3,980	4,851
Increase in other assets	2,741	2,000	1,000	1,000	1,000
<b>Total Uses</b>	<b>385,849</b>	<b>375,804</b>	<b>444,093</b>	<b>532,968</b>	<b>634,556</b>
Increase (Decrease) of Cash	5,562	20,049	9,047	(10,430)	(29,181)
Cash Balance at beginning of year	34,585	40,147	60,196	69,243	58,813
<b>Cash Balance at end of year</b>	<b>40,147</b>	<b>60,196</b>	<b>69,243</b>	<b>58,813</b>	<b>29,632</b>

## KOREA

## KOREA DEVELOPMENT BANK

## Projected Indicators of Financial and Operational Performance, 1976 - 1980

(Won in Million)

	1976	1977	1978	1979	1980
I. Total Assets	1,013,994	1,224,998	1,456,532	1,707,100	1,977,825
of which loan portfolio <sup>1/</sup>	727,582	900,508	1,104,283	1,346,094	1,632,067
Investment Portfolio	167,687	175,767	183,187	190,107	196,027
Total long-term debts and guarantees <sup>2/</sup>	2,295,394	2,796,374	3,375,877	4,041,983	4,805,457
of which in foreign exchange	117,696	239,329	309,019	373,622	432,496
Borrowings from the Government	180,759	210,366	238,926	266,797	294,046
Debentures in domestic currency	61,782	59,934	56,826	56,826	56,826
Special loans and funds <sup>3/</sup>	254,393	339,594	435,937	516,215	672,522
Deposits	500	1,000	1,500	2,000	2,500
Outstanding guarantees	1,776,011	2,131,214	2,557,457	3,067,949	3,682,739
of which covered by GRA	1,378,573	1,654,288	1,985,146	2,382,175	2,858,610
Equity	289,251	321,251	357,348	400,166	451,914
Long-term debt <sup>4/</sup> /equity	3.2	3.6	3.9	4.1	4.3
Total debt <sup>4/</sup> /equity	3.9	4.3	4.7	5.0	5.2
Current ratio	1.4	1.6	1.6	1.5	1.3
II. Profit before provision as percentage of average total assets	1.7	1.6	1.5	1.5	1.6
Net income <sup>5/</sup> after provision as percentage of average equity	5.2	5.6	5.6	6.0	6.7
Reserves and provisions as percentage of total portfolio	7.4	7.7	7.9	8.1	8.4
Financial expenses as percentage of average total assets	6.3	6.6	6.9	7.0	7.2
Administrative expenses <sup>6/</sup> as percentage of average total assets	1.1	1.0	1.0	1.0	1.0
Book value as percentage of par value	129	134	139	145	151
Gross earnings as percentage of average assets	9.2	9.3	9.5	9.6	9.9
Debt service coverage (times)	1.06	1.21	1.23	1.23	1.24
Interest on long-term debt as percentage of average long-term debt <sup>7/</sup>	9.4	9.3	9.4	9.4	9.5
Cost of total long-term resources as percentage of average total long-term resources <sup>8/</sup>	6.4	6.7	6.9	7.1	7.2
Income from loan portfolio as percentage of average loan portfolio	9.9	10.0	10.1	10.2	10.2

<sup>1/</sup> Net of provisions for doubtful loans.<sup>2/</sup> Excluding Shareholding Administration Fund and Provision for Foreign Exchange loss on IRF in foreign currency.<sup>3/</sup> Including NIF and IRF.<sup>4/</sup> Including guarantees not covered under GRA.<sup>5/</sup> Indicates net income after National Defense Tax; KDB does not pay income/corporate tax.<sup>6/</sup> Included are Salaries and other Personnel Expenses, other administrative and general expenses, and other expenses.<sup>7/</sup> Excluding guarantees.<sup>8/</sup> Long-term debts plus equity. Since KDB is not required to pay a dividend, the cost of equity is assumed to be zero.



KOREA DEVELOPMENT BANKSchedule of Projected Draw-Downs from Proposed Bank Loan of US\$82.5 million<sup>1/</sup>  
(US\$ in millions)

## 1977

January - March	0.0
April - June	0.0
July - September	1.6
October - December	<u>4.0</u>
Sub-total	<u>5.6</u>

## 1978

January - March	7.6
April - June	9.9
July - September	11.9
October - December	<u>12.5</u>
Sub-total	<u>41.9</u>

## 1979

January - March	11.8
April - June	10.5
July - September	7.0
October - December	<u>4.2</u>
Sub-total	<u>33.5</u>

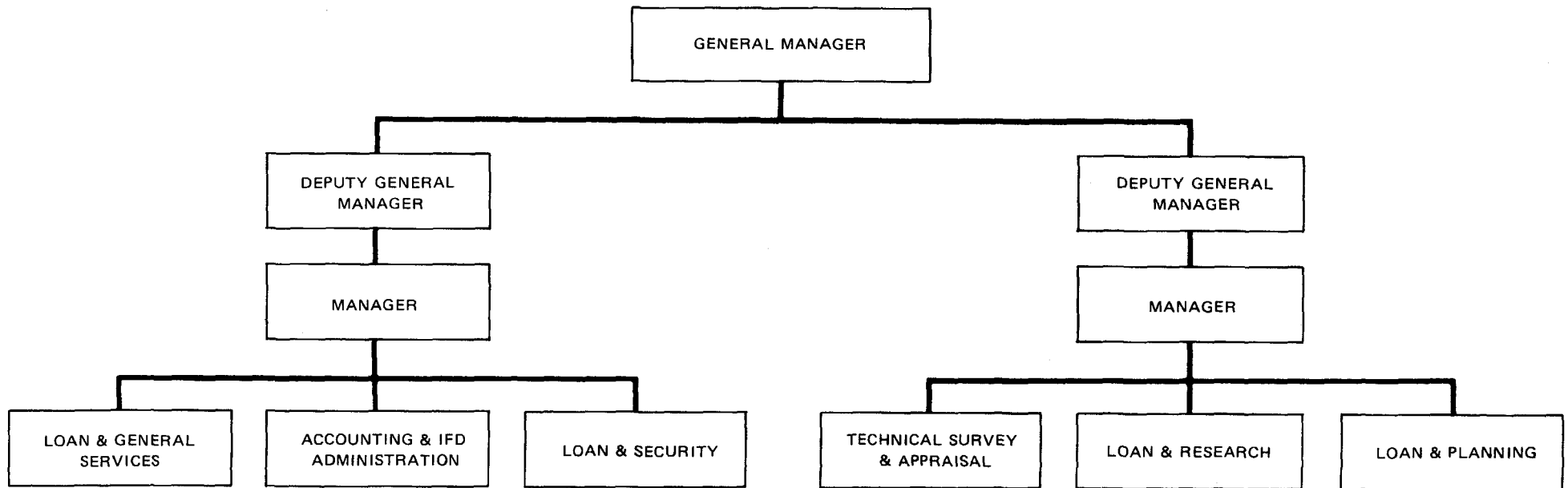
## 1980

January - March	1.1
April - June	0.4
July - September	-
October - December	<u>-</u>
Sub-total	<u>1.5</u>
Total	<u>82.5</u>

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<sup>1/</sup> Assuming that the loan shall become effective in January 1977.

**KOREA DEVELOPMENT BANK  
ORGANIZATION CHART OF A TYPICAL BRANCH**



**KOREA DEVELOPMENT BANK  
ORGANIZATION CHART AS OF MARCH 31, 1976**

